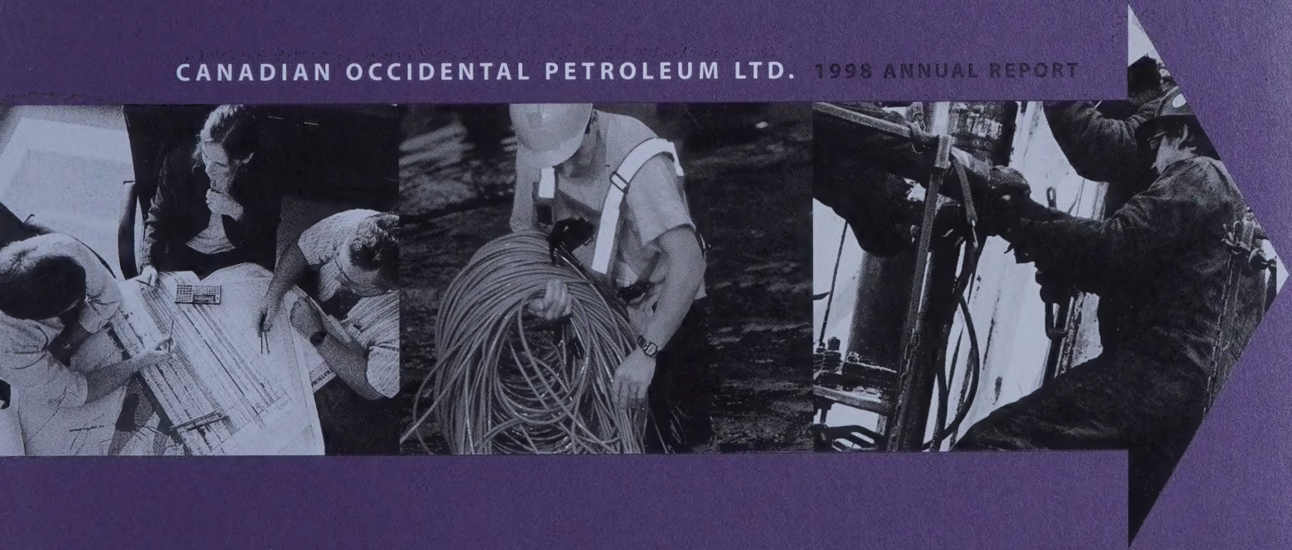
CANADIAN OCCIDENTAL PETROLEUM LTD. 1998 ANNUAL REPORT



CANADIAN OXY

We are Canadian Occidental Petroleum Ltd. (CanadianOxy)

A dynamic, high-growth, international oil, gas and chemicals company with roots in Canada and operations that branch worldwide.

Our core oil and gas business activities include exploration, development, production and marketing of crude oil and natural gas.

We produce oil and gas in Canada, Yemen, the Gulf of Mexico and Nigeria.

We own a 7.23 per cent interest in the Syncrude synthetic oil joint venture.

We are developing new production in Hay, British Columbia, offshore west Africa and offshore north-west Australia.

We operate high-potential programs in Colombia, Indonesia, Yemen, Nigeria and the deep waters of the Gulf of Mexico.

Through our Chemicals operation, we are also one of North America's top three manufacturers of sodium chlorate.

2	financial highlights	
3	letter to shareholders	
6	Q & A	Management answers the most frequently asked questions.
8	the big picture	How we did in 1998 and where we're going in 1999.
10	low-cost reserves	CanadianOxy achieves first quartile reserve replacement costs in 1998.
12	our assets	Many of our assets generate significant free cash flow.
14	core growth	Building a competitive advantage in proven oil and gas basins.
17	production growth	CanadianOxy sets a production record in 1998.
18	new growth	Expanding our asset base by developing new, high-potential properties.
20	high-potential exploration	Exploring significant opportunities in Nigeria, Yemen and the Gulf of Mexico.
22	chemicals	Steady growth is the hallmark of this efficient and dependable division.
24	community relations	Integrity, Leadership, Partnerships: Helping the communities where we operate.
26	Y2K Q & A	CanadianOxy is ready for the new millennium. Here's why.
27	management's discussion and analysis (MD&A)	
41	consolidated financial statements and notes	
66	supplementary information	

In this report, unless otherwise specified, dollar amounts are stated in Canadian dollars, and production and reserve numbers represent CanadianOxy's working interest before royalties. Natural gas is converted to oil equivalent at the rate of ten thousand cubic feet = one barrel of oil for Canada and six thousand cubic feet = one barrel of oil for the United States and North Sea. Divisional funds flow from operations is presented before corporate items and income taxes.

Certain statements in this report constitute "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act of 1995*, Section 21E of the United States *Securities Exchange Act of 1934* and Section 27A of the United States *Securities Act of 1993*, as amended. By their nature, such statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied. Readers should refer to the Company's 1998 Annual Report on Form 10-K for a discussion of the risks and uncertainties.

The oil and gas business is tough in more ways than one. Companies search for a product which can be miles underground, work in countries with emerging economies, and have limited control over pricing.
To be successful, a company needs vision and leadership, talented people who can recognize and exploit good opportunities, and the financial strength to move forward.

Canadian Occidental is that kind of company.

highlights

financial		1998		1997		1996
(dollar amounts in millions except per share data)						
Net Sales	$	**1,440**	$	1,681	$	1,362
Funds Flow from Operations	$	**600**	$	865	$	766
Per Common Share	$	**4.34**	$	6.34	$	5.64
Net Income (Loss)	$	**(110)**	$	139	$	190
Per Common Share	$	**(0.83)**	$	1.02	$	1.40
Capital Expenditures	$	**950**	$	905	$	632
Acquisitions	$	**–**	$	1,680	$	–
Common Shares Outstanding (millions)		**137.4**		136.6		136.2

operations	1998	1997	1996
Daily Production			
Oil and Natural Gas Liquids (thousand barrels)	**180.4**	171.5	123.1
Synthetic Crude Oil (thousand barrels)	**15.2**	15.0	14.5
Natural Gas (million cubic feet)	**420**	388	244
Sodium Chlorate Production			
(thousand short tons)	**399**	383	349
Proved and Probable Reserves			
Oil and Natural Gas Liquids (million barrels)	**529**	567	389
Synthetic Crude Oil (million barrels)	**290**	213	192
Natural Gas (billion cubic feet))	**921**	1,317	824

fellow shareholders:

The past year held many challenges and opportunities for CanadianOxy. Falling commodity prices meant a difficult year financially, although on the operations side, we experienced our best results to date and produced more oil and gas than ever before.

The current challenges are nothing new. Throughout the history of the oil industry we have seen oil prices rise and fall and the cycle has been repeated many times. This experience helped us recognize the early signs of a downturn and in late 1997, we began repositioning CanadianOxy to deal with the poor environment and, more importantly, to position aggressively for growth when prices improve.

Our strategy was to focus on core business operations, dispose of non-core assets to concentrate our resources where they would generate the greatest returns, capture opportunities which would not be available in a better environment, and to improve our financial position.

Despite low oil prices, CanadianOxy's operations performed beyond our expectations. During the year we found significantly more oil and gas reserves than we produced. More importantly, we added these reserves at costs that ensure future profitability and maintained our reputation as one of the best operators in the industry.

We also increased our production in 1998 by 13,500 barrels of oil equivalent (boe) per day to 248,000 boe per day. These are the highest levels ever attained by CanadianOxy and clearly demonstrate our capacity to generate growth for our shareholders.

Throughout 1998, we negotiated property sales of $630 million of non-core assets, exiting the North Sea and significantly narrowing our focus in Canada. Entering the market at the right time with attractive assets for sale, allowed us to negotiate premium prices and ultimately meet all of our strategic objectives.

One of our greatest strengths is the ability to find, develop and manage major projects anywhere in the world. Funded in part by dispositions, we invested over $950 million in new projects and opportunities in 1998 to ensure CanadianOxy continues to grow.

Some of our most promising projects are located offshore Nigeria, offshore northwest Australia, in the Gulf of Mexico and in Western Canada. These projects will add over 40,000 boe of production by early 2000 and all of them will generate attractive returns even at current low oil prices.

During 1998 we also acquired new exploration acreage offshore Nigeria, in northern Yemen and in the deep waters of the Gulf of Mexico. These areas have the potential to significantly increase CanadianOxy's long-term reserves, production and value.

Periods of low commodity prices often result in outstanding opportunities. To ensure we would be in a position to take advantage of this, we restructured our balance sheet in late 1998 and early 1999 through the issuance of $700 million of unsecured junior subordinated debentures (preferred securities), and $340 million of public debt securities. This has provided the financial strength to aggressively pursue attractive new projects as they become available.

Preferred securities are innovative securities that combine the features of both debt and equity to provide safety and flexibility in difficult economic environments. As a result of these issues, our net debt, which had increased to $2.5 billion following the acquisition of Wascana Energy Inc. in mid-1997, stood at just $1.7 billion at the end of 1998 and $1.4 billion at the end of February 1999. Equally important, less than $300 million of our $1.9 billion committed bank loan facility is currently drawn, ensuring we have access to cash if and when we need it.

Although we are proud of these operational results and strategic successes, our financial performance suffered from the decline in oil prices in 1998. Cash flow from operations totalled $600 million compared to $865 million in 1997, while cash flow per common share dropped to $4.34 from $6.34.

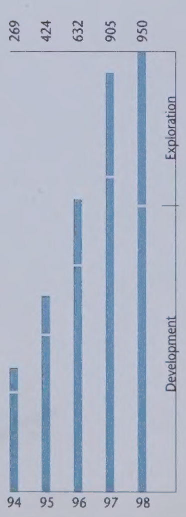
We recorded our first loss ever in 1998, $110 million ($0.83 per share) compared to earnings of $139 million ($1.02 per share) in 1997. Our 1998 results included non-recurring after-tax charges of $40 million for asset write-downs and $12 million for employee termination costs as well as after-tax gains from the sale of assets totalling $112 million.

These financial results are unacceptable to us. While we are confident oil prices will improve, we are also taking steps to improve our financial performance regardless of oil prices.

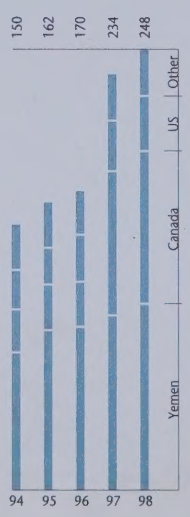
Long-term success in the oil business demands a low-cost structure and we have implemented

We're in the oil and gas business. We're here for the long term.

capital expenditures
(millions of dollars)

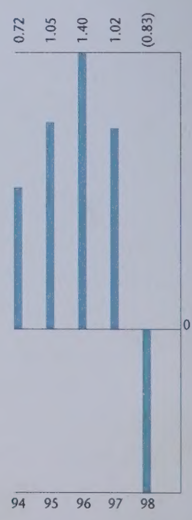


daily oil and gas production
(mboe)



funds flow per common share
(dollars)

net income (loss) per common share
(dollars)



programs to save at least $100 million over the next three years. To achieve these savings we must improve the efficiency of our business operations. We know this is one of the most difficult challenges an organization can face, yet we are determined to succeed.

We are committed to adding shareholder value by excelling at all phases of the oil and gas business – exploration, development, exploitation and acquisitions. In 1999, we will manage a conservative capital program to grow reserves and be prepared for expansion when oil prices recover.

Based on our oil price forecast for 1999, it is clear our current opportunities exceed our available cash flow by a significant margin. We will be faced with some difficult choices in the months ahead. Some capital projects may proceed on a slower timetable while others may be postponed. Only the best prospects can be pursued in the near term. A key to our planning is to ensure that the opportunities which we cannot pursue immediately are not lost.

Our 1999 capital program has been designed to maintain production from our core operations. The Masila Block in Yemen, for example, which has operating costs of less than U.S. $1 per barrel and generates significant free cash flow, is one of the key assets of our Company. We will invest almost $90 million to further develop and improve this project.

We will also invest in significant new developments offshore northwest Australia and in northeast British Columbia. These projects, along with the acquisition of the Eugene Island 18 Field in the Gulf of Mexico and the commencement of production from the Ejulebe Field, offshore Nigeria, in late 1998, will replace the production we sold in 1998 and provide for growth into the future.

Finally, our 1999 budget will protect the opportunity base we have carefully developed. We will continue to explore promising new areas such as the recent Ukot discovery on OPL 222, offshore Nigeria and the northern blocks in Yemen, to develop new sources of reserves. Other opportunities will be carefully evaluated as they arise.

CanadianOxy is in a strong position financially and operationally to ride out the soft energy market and we believe that by acting conservatively and strategically, we can minimize our risk and maximize our return on investment from our core business operations. In doing so, our number one priority will always be the health and safety of our employees and of the communities in which we operate.

It's not easy to successfully manoeuvre a company through an environment with the lowest oil prices in 20 years. However, based on our previous experience in similar economic cycles, we know that patience and flexibility are the keys to surviving. We are certain our business strategy will pay off and result in CanadianOxy moving forward into the 21st century as a strong, financially secure and successful company.

Victor J. Zaleschuk
President and Chief Executive Officer

Dr. Ray Irani
Chairman of the Board

February 19, 1999, Calgary, Alberta

Our management team acted decisively in 1998 to put in place a strategy that focused on core areas.

Management answers the most frequently asked questions:

Q A

When is Yemen production expected to decline?

We established a new production record for the Masila Block in 1998, averaging almost 204,000 barrels of oil per day. So far the Masila Block has produced over 300 million barrels since it came onstream in mid-1993. We estimate it has total reserves of over 800 million barrels. We also added 22 million acres of exploratory lands in northern Yemen in 1998. So, we are optimistic that we will be able to continue adding new reserves and growing production from Yemen for years to come, with no immediate decline.

Is CanadianOxy committed to Canadian operations?

Absolutely! With the acquisition of Wascana Energy in mid-1997, we tripled our size in Canada. However, Western Canada is a relatively high-cost basin and to be successful you have to be very efficient. This requires concentrating on those geographic areas and geologic plays where you have a dominant land position and control the infrastructure. Through our asset disposition program, we now have one of the most focused asset portfolios in Canada – heavy oil in west central Saskatchewan, light oil in southeast Saskatchewan and the Hay region of northeast British Columbia and shallow gas in southwest Saskatchewan.

The nature of Canadian operations allows for rapid production growth and quick payout of investment capital during periods of high commodity prices. During periods of low commodity prices we can shift our investment to our lower-cost, longer lead-time international operations without losing opportunities in Canada. This gives us tremendous flexibility throughout the economic cycle.

Why does CanadianOxy have a Chemicals division?

This is a well run, valuable business. It provides significant free cash flow and is not tied to the cycles of the oil and gas business. This allows us to finance our business aggressively while avoiding dilution of our common shareholders.

Is CanadianOxy going to become more balanced between oil and gas?

About 15 per cent of our current production is natural gas. Unfortunately, outside of North America, natural gas has little value in most of the basins where we operate. As a result, we have a lot of expertise in oil and barring a major discovery in the deep waters of the Gulf of Mexico or a significant North American acquisition, a dramatic shift in the overall balance is unlikely in the near term.

Victor J. Zaleschuk
President and
Chief Executive Officer

David B. Wartman
Senior Vice President, Human
Resources and Corporate Services

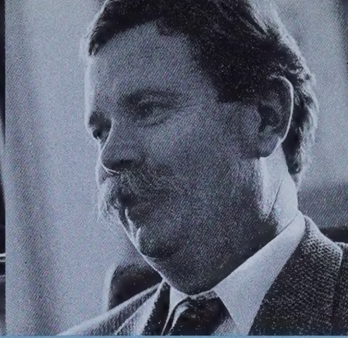
Marvin F. Romanow
Senior Vice President, Finance
and Chief Financial Officer

Kevin J. Reinhart
Treasurer

John B. McWilliams
Senior VIce President,
General Counsel and Secretary

Una M. Power
Controller and Director,
Risk Management

Graeme G. Phipps
Vice President, Corporate Planning
and Business Development



Charles W. Fischer
Executive VIce President and Chief
Operating Officer

Why is CanadianOxy adding exploration acreage in deep-water areas like the Gulf of Mexico and offshore Nigeria?

Simply, these areas contain large untapped potential and technology is advancing at a significant rate that getting involved in these areas will become increasingly competitive over time. Our strategy has been to capitalize on our shallow-water expertise, and form relationships with the most experienced and successful deep-water explorers in each basin. We were successful in this strategy and it has already paid off in the Ukot discovery, offshore Nigeria.

How do you deal with the risks involved in operating internationally?

Each jurisdiction has unique risks, and some places are simply too risky for us. The key is to understand the risks associated with each of the countries we operate in and to have strategies for dealing with them. In all cases, relationships are key. So, our primary strategy is to behave with honour, integrity and genuine respect for the culture and needs of our partners and stakeholders.

Where is CanadianOxy's near-term production growth coming from?

We have grown our production at an average compound rate of 27 per cent since 1991. In the near term, both the Ejulebe Field offshore Nigeria, which commenced production in late 1998, and the Eugene Island 18 Field in the Gulf of Mexico which we acquired in early 1999, will contribute a full year of production to our totals in 1999. We are currently developing the Buffalo Field offshore northwest Australia, which should be onstream in late 1999. We will also commence development of the Hay region in northeast British Columbia in late 1999 and it will be onstream in early 2000. Combined, these projects will contribute about 40,000 barrels equivalent per day of new production. And, we have about 25,000 barrels of daily production in North America that could be quickly developed if oil prices improve to the U.S. $16 range.

Why is CanadianOxy issuing preferred securities?

We issued U.S. $259 million of unsecured junior subordinated debentures (preferred securities) in late 1998 and a further U.S. $200 million of these securities in early 1999, because they have a number of features which, in light of current market conditions, are attractive from our point of view. They pay dividends, which we can deduct for tax purposes, of 9.75 per cent and 9.375 per cent respectively and mature in 49 years, providing a solid base of fixed rate financing. However, we can call them after five years, providing significant flexibility to respond to changes in interest rates and the oil price environment. Further flexibility is gained from an option which allows us to defer dividend payments for up to 20 quarters and to repay any deferred dividends and the principal amount in common stock. While we don't anticipate exercising these options, they ensure we will remain in a strong position to aggressively pursue our business strategies despite difficult times in the oil and gas business.

Is heavy oil a good investment?

Canadian heavy oil comprises about 15 per cent of our overall production. To be successful you have to be the low-cost producer and have a definite strategy that deals with the product from the idea stage to the end user. We are the documented low-cost producer. We have a very large position in the prime heavy-oil region of west central Saskatchewan and are able to find it cheaply. With improvements in technology, our ability to extract this oil cheaply is improving and we are able to wring out decent netbacks even in mediocre pricing environments.

What has CanadianOxy done to prepare for the Y2K bug?

In early 1997, a centralized team was formed to deal with the Y2K issue across the Company. Over the past two years, this team has worked to develop an extensive inventory of all devices potentially at risk from a Year 2000-related failure.

For more information on CanadianOxy's Y2K plans, please see the Y2K Question and Answer section on page 26.

Managing an oil company through the bottom of the price cycle requires a balance between exploration, production growth, the building of future opportunities and managing the balance sheet.

the big picture

our response was decisive

We added over 160 million barrels of proved reserves at a cost of just $5.29 per proved barrel equivalent, setting the stage for future growth in production and profitability:

→ We increased the total production to a record 248,000 barrels of oil equivalent per day.

→ We discovered one of the largest new oil pools in Canada in the past 20 years, at Hay River, British Columbia.

We increased low-cost oil production from our lowest cost operation, the Masila Block in Yemen, to 105,000 barrels per day net to CanadianOxy.

We increased high netback gas production from the Gulf of Mexico by 21 per cent.

We accelerated oil development projects in Nigeria and Australia. Nigeria added 10,000 barrels of daily production in late 1998 and Australia will add a further 20,000 barrels per day, net to CanadianOxy, by the end of 1999.

We deferred projects with lower margins or rapid production declines until prices improve.

We took advantage of market opportunities to make significant improvements in our asset portfolio:

→ We acquired over 25 million undeveloped acres in Nigeria, Yemen and the deep waters of the Gulf of Mexico. We currently have an inventory of over 30 prospects and leads on this acreage.

→ We invested $45 million to acquire natural gas production with significant exploitation potential, in our largest shallow water Gulf of Mexico core area.

→ We raised $615 million in 1998 and early 1999 through the disposition of non-core assets in Canada and the North Sea. We achieved premium prices, averaging almost $10 per barrel equivalent for the reserves on a proved basis.

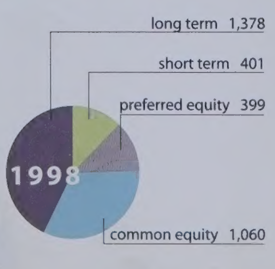
We took advantage of opportunities in the financial markets to reduce overall debt, increase liquidity and maximize financial flexibility:

→ We extended the average term to maturity on our long-term debt to 10 years.

→ We issued $399 million of preferred securities which combine features of both debt and equity.

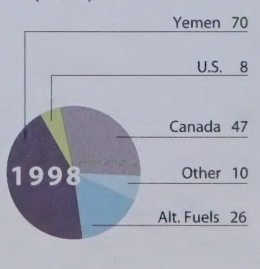
→ We repaid $789 million of long-term debt.

capital structure
(millions of dollars)

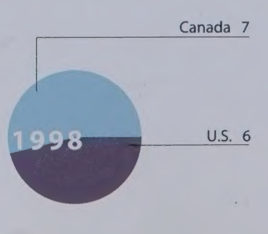


1998 proved reserve changes

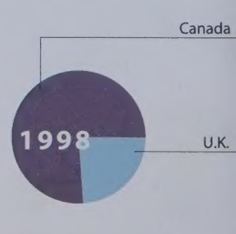
reserve adds by country
(mmboe)

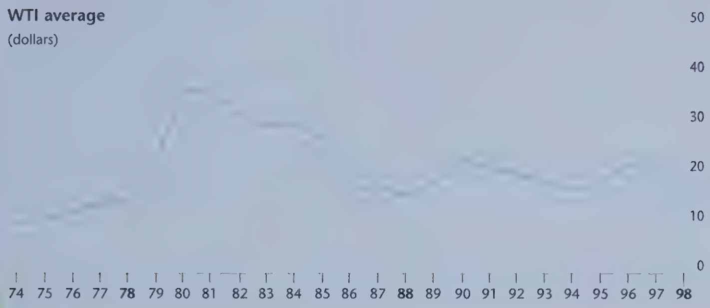


acquisitions by country
(mmboe)



dispositions by country
(mmboe)





Our business is cyclical. Oil prices will recover. The question is when. The price of West Texas Intermediate crude oil averaged US $14.43 in 1998, 26 per cent less than the average price over the last 10 years.

Our 1999 capital program is designed to:

→ Complete development of the Buffalo Field on the northwest shelf of Australia adding 20,000 bbls/d of new production by 1999.

→ Increase Gulf of Mexico natural gas production 18 per cent to 136 mmcf per day.

→ Maintain production from the Masila Block, Yemen, at 104,000 barrels per day, net to CanadianOxy.

→ Maintain overall production (net of 1998 dispositions) at 225,000 boe/d.

→ Further our high potential exploration programs around the world.

→ Preserve our competitive position in all areas.

→ Ensure the highest standards of protection for the environment and the health and safety of our staff and the communities where we operate.

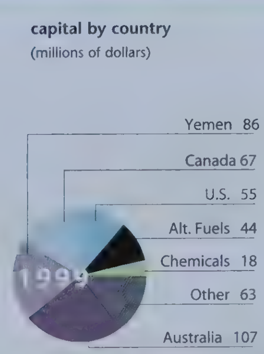
→ Reduce long-term debt by a further $350 million through the issuance of $300 million in preferred securities and applying surplus cash.

Restructuring, process improvements and other initiatives under way will save approximately $100 million over the next three years.

We have a large inventory of exploration and development opportunities in Canada and the Gulf of Mexico, which could be drilled when oil prices increase.

We have no major capital commitments in 2000. At current oil prices we expect significant free cash flow to grow our businesses and retire debt.

Finding and development costs of $5.29 combined with 180 per cent production replacement and a $3.14 reserve replacement cost, set the stage for sustained growth in future profits.

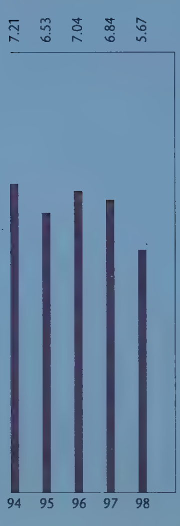


low-cost reserves

CanadianOxy's core oil and gas operations had an excellent year in 1998. Our assets provided top reserve replacement rates at low costs.

reserve replacement ratio–proved reserves
(per cent annual)

five-year average finding and development costs–proved reserves
($/boe)



five-year average reserve replacement costs–proved reserves
($/boe)

reserve life index proved reserves
(years)

[illegible]	1998			1997		
	proved	probable	total	proved	probable	total
CRUDE OIL AND LIQUIDS (million barrels)						
Yemen	188	42	230	156	106	262
Canada	185	51	236	183	48	231
United States	22	3	25	22	3	25
Alternate Fuels	189	101	290	168	45	213
Ecuador	7	9	16	8	9	17
Other Countries	14	8	22	6	26	32
	605	214	819	543	237	780
NATURAL GAS (billion cubic feet)						
Canada	550	129	679	759	215	974
United States	205	37	242	188	22	210
North Sea	–	–	–	87	46	133
	755	166	921	1,034	283	1,317

Tugboat keeps oil tanker in position for loading off Yemen coast.

Central Processing Facility, Masila Block, Yemen/ Terry Horne, Field Superintendent.

Growth of Low Cost Reserves Provides Solid Foundation for Future Growth

CanadianOxy achieved top quartile annual reserve replacement costs of $3.14 per barrel equivalent on a proved basis and finding and development costs on the same basis of $5.29. This continues our ongoing record of low-cost reserves replacement which, over the past five years, has averaged $6.28 per barrel equivalent on proved reserves with finding and development costs of $5.67. Throughout the year, the Company added proved reserves of 162 million equivalent barrels, replacing production by 180 per cent. Net of acquisitions and dispositions, reserve additions totalled 120 million barrels equivalent, resulting in year-end proved reserves of 694 million barrels equivalent. By the end of the year, the Company's proved and probable reserves grew to almost one billion barrels.

Accessible Reserves

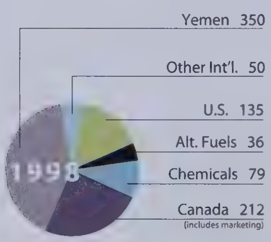
All of CanadianOxy's operations in Canada, Yemen, the Gulf of Mexico and other international areas, have land, seismic data, and plays ready to be drilled. This provides the opportunity to add reserves and quickly move them into production, resulting in cash flow and growth for shareholders.

our assets

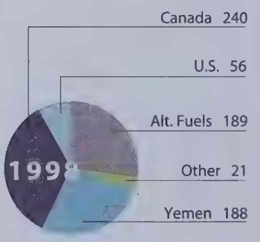
Our overall strategy is to excel at all phases of the oil and gas and chemicals businesses – exploration, development, production, marketing, acquisitions and dispositions – and to continually focus our efforts and resources on maximizing value to shareholders.

We apply this expertise to projects at varying stages of maturity around the world.

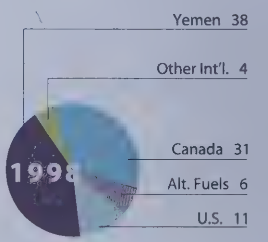
divisional funds flow
(millions of dollars)



proved reserves
(mmboe)



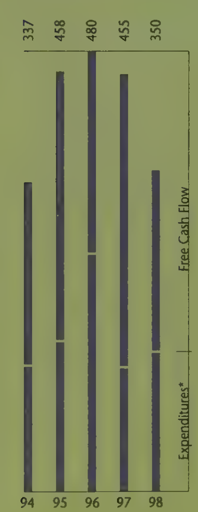
annual production
(mmboe)



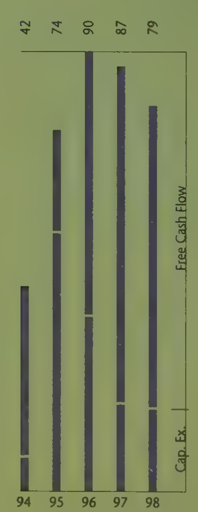
[illegible]

One of our greatest strengths is the ability of many of our assets to generate more cash than they require to grow. In 1998, our interest in the Masila Block, Yemen and Chemicals generated [illegible] million more cash flow than they used.

Yemen
(millions of dollars)
* Includes capital expenditures and in-country taxes.



Chemicals
(millions of dollars)



aggressively extending known oil and gas plays onto new acreage and applying technology to increase productivity and lower costs

Western Canada
Syncrude Joint Venture
Shallow waters of Gulf of Mexico
Masila Block in Yemen

growth

building competitive advantage in new geographic regions through development projects in proven oil and gas basins

Shallow waters offshore Nigeria
Northwest shelf of Australia
Western Canada - Hay, British Columbia
Deep waters of Gulf of Mexico

high-potential exploration

exploring for significant oil and gas reserve accumulations in less mature hydrocarbon basins

Deep water offshore Nigeria
Yemen
Deep waters of Gulf of Mexico
Indonesia
Colombia

chemicals

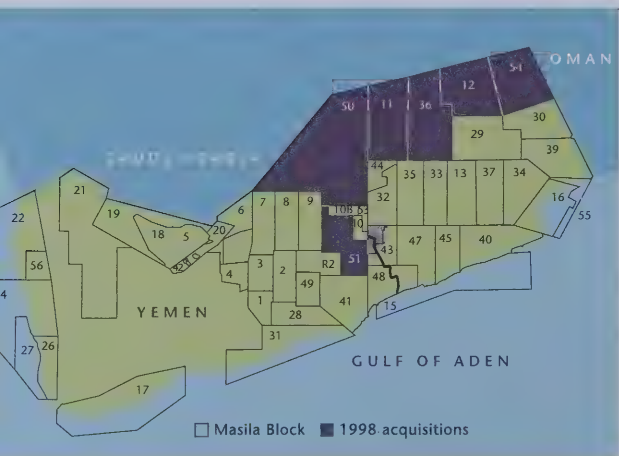
grow free cash flow by optimizing production, marketing and distribution in existing markets while expanding into new markets for sodium chlorate

Six plants in North America
Expanding into South American markets

core growth

Yemen: Growing Beyond Expectations

CanadianOxy is the largest oil producer in Yemen and our acreage there has consistently performed beyond expectations. Low production costs of less than U.S. $1 per barrel and ownership of the infrastructure in the Masila Block gives CanadianOxy a strong competitive advantage in Yemen. During the year, 23 wells were drilled on the Masila Block which helped increase production by six per cent and set a new record of 105,000 net daily barrels of oil equivalent.



Masila Block: The Crown Jewel

The Masila Block is the Company's key strategic asset and last year 70 million barrels of proven reserves were added, bringing CanadianOxy's share of proven reserves at the end of 1998 to 188 million barrels of oil equivalent.

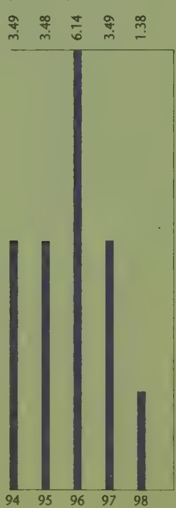
In 1999, 22 low-risk development wells are planned for the Masila Block and the Company will be looking for extensions of existing fields. Over the next two years CanadianOxy plans to drill four to eight new pool test wells and increase reserves along with productive capacity. Over the next four years we will double our development well count to bring on new production.

The Masila Block is producing over 200,000 barrels of oil per day and this level is expected to remain steady throughout 1999. The Company has a 52 per cent working interest in the block and is also the operator. Masila production is sourced from 13 fields in seven different geological horizons. In addition, there are a number of other fields that have not been fully explored and the potential for reaching one billion barrels of recoverable reserves is definitely within reach.

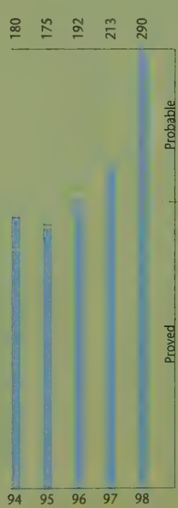
emen: 22 million acres, producing over 200,000 bbls/d, 137 mmbbls new reserves in 1998.

Yemen daily production
(mbbl)

five-year average Yemen finding and development costs–proved reserves
(US $/bbl)



Syncrude–proved reserves
(mmbbl)



Gulf of Mexico cash netbacks
(dollars)

0,000 barrels of Masila crude being loaded onto tanker through flexible pipeline.

Douglas B. Otten, Senior Vice President, United States

Syncrude: Technological Success

CanadianOxy has a 7.23 per cent interest in the Syncrude oil sands project, located in northeast Alberta. This development is enjoying considerable success and has significant growth planned.

In 1998, the Syncrude joint venture owners agreed to increase the capacity of the bitumen processing facilities and also approved the development of the Aurora mine with new mining, extraction and bitumen transport technology. This has resulted in the addition of 26 million barrels of proved and 13 million barrels of probable reserves. The total proven and probable reserves associated with CanadianOxy's interest in the Syncrude project has now grown to 290 million barrels, an increase of 35 per cent over last year. Additional growth opportunities are in the planning phase.

CanadianOxy's interest in the Syncrude project is also paying off with respect to production growth. Over the last five years, production has increased by 15 per cent and over the next five years, production is expected to increase by another 25 per cent while operating costs will decrease substantially.

Gulf of Mexico: High Netbacks

The Gulf of Mexico is a major supply basin for the U.S. with excellent access to gas markets. This sophisticated infrastructure, favourable fiscal regime, and low production and development costs, result in high netbacks. This area holds world-class potential for reserve additions and has been the focus for building a deepwater position within CanadianOxy's portfolio.

Gulf of Mexico: Reliable Growth into the Future

The shallow waters of the Gulf of Mexico have been one of CanadianOxy's core production areas for nearly 10 years. During 1998, three discoveries, nine development wells and the acquisition of Eugene Island 18, replaced production by 122 per cent and added 16 million proven and probable barrels equivalent of reserves. Production in 1998 averaged 31,000 barrels of oil equivalent per day, with ongoing development at Eugene Island, Vermilion and West Delta, providing for this area's future growth.

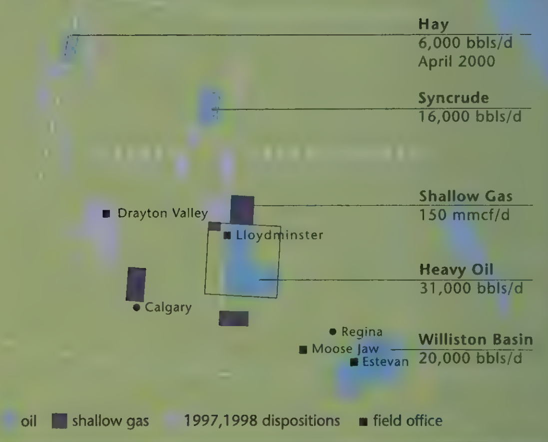
In January 1999, the acquisition of the Eugene Island 18 Field will contribute 22 million cubic feet of natural gas and 400 barrels of oil per day to our volumes. Most of the wells in the field are 100 per cent owned by CanadianOxy. Reserves for the field are approximately 50 billion cubic feet of natural gas equivalent on a proven and probable basis. There are significant potential reserves contained in this area and we plan to drill seven low-risk wells over the next two years.

Roger D. Thomas, Senior Vice President, Canadian Oil and Gas

Canada: Heavy Oil Growth

CanadianOxy's heavy oil assets continued to deliver low-cost reserves in 1998. Proven reserve additions were 20 million barrels at a cost of $4 per barrel. The Plover Lake area was the largest contributor due to successful drilling in 1998.

CanadianOxy also discovered two new heavy oil pools in Saskatchewan in 1998, at Luseland, adjacent to the Company's Plover Lake Field, and at Major. Fully developed, these reserves will add approximately five million barrels.



Western Canada: 1998 asset dispositions of $313 million provide financial flexibility.

Technological Success

Control of operating costs is key to the economic viability of heavy oil, which is generally a lower priced oil. Several strategic operational initiatives designed to lower operating costs and increase heavy-oil netbacks by as much as $1 per barrel are planned for 1999 and early 2000. Among these initiatives is the planned construction of co-generation facilities within our heavy oil operating area during 1999. This facility is expected to produce approximately 50 megawatts of electricity and would be initially fuelled by solution gas currently vented or flared in the area. The project would significantly reduce our greenhouse gas emissions by conserving produced gas for fuel and by using waste heat to treat produced emulsion at our Plover Lake battery.

CanadianOxy has also started engineering design on a sand cleaning facility at our Plover Lake Field which is expected to reduce costs to approximately one-third of current alternatives. The facility is expected to come on-line in early 2000.

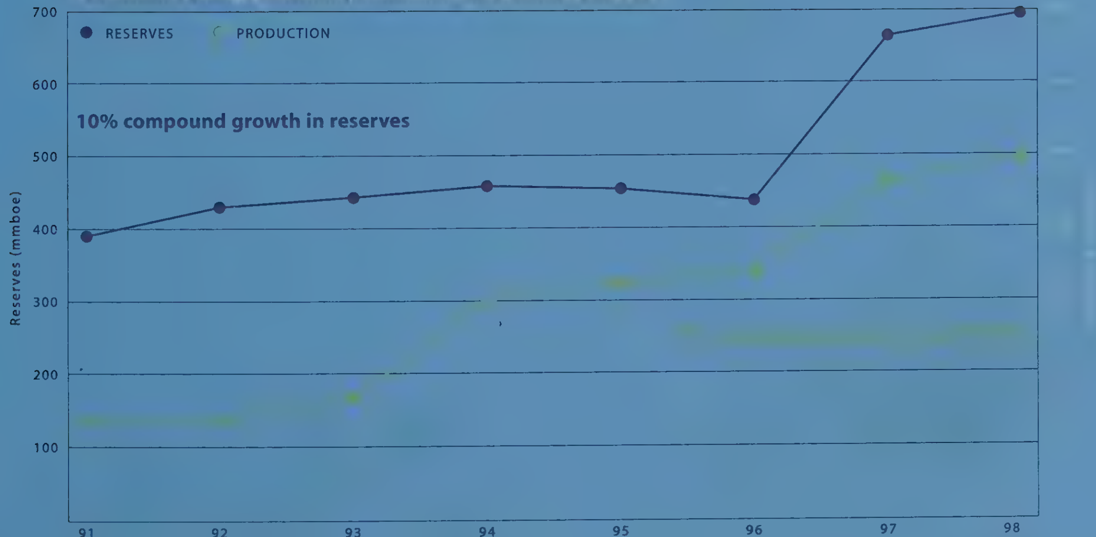
Canadian Natural Gas

CanadianOxy had a very successful year in natural gas in Western Canada. Proven reserve additions totalled 132 billion cubic feet before dispositions and represent 130 per cent production replacement. These reserve additions were largely the result of our shallow gas drilling and capital programs at Hatton, Medicine Hat, Bronson and Beacon Hill.

production growth

A Company record of 248,000 barrels of oil equivalent per day was set during 1998 — 196,000 barrels of oil and 320 million cubic feet of natural gas per day.

consistent strong growth in production and proved reserves



new growth

Australia: A Rapid Return on Investment

CanadianOxy's reserves and production figures will increase in late 1999 when the Buffalo Field, located 560 kilometres offshore northwest of Darwin, Australia, begins production. This project, located in 27 metres of water is expected to produce 20,000 barrels of oil equivalent per day, net to CanadianOxy.

The Buffalo Field will produce high-quality 53° API oil, with low production costs of U.S. $3 to $4 per barrel. It will yield high netbacks and a rapid return on investment. CanadianOxy has a 50 per cent interest in this field.

Australia: will produce high-quality oil with low production costs by late 1999.

Nigeria: A Taste of Things to Come

A new project that came onstream in October 1998, ahead of schedule and within budget, was the Ejulebe Field, located in 14 metres of water, 24 kilometres offshore Nigeria. At 10,000 barrels per day, net, this project increases the Company's cash flow and also provides a base for CanadianOxy to explore other projects in Nigeria.

Nigeria offers a well-developed service market, an active property-trading market, many smaller, shallow-water exploration and exploitation opportunities, and the potential for deep-water exploration.

The Ejulebe Field was developed under Nigeria's Indigenous Companies Program. Through this venture, Nigerian companies lease exploration blocks and farm out exploration, development and production interests. CanadianOxy participated in the program and built many solid business relationships during development of the Ejulebe Field. These contacts will be valuable for future projects in Nigeria.

Hay: Significant Canadian Potential

In early May 1998, CanadianOxy announced a major conventional oil discovery at Hay in northeast British Columbia. This project represents a key source of our future production growth and reserve replacement in Canada.

The reservoir contains at least 135 million barrels in place and is one of the largest, most significant discoveries in Western Canada in the past 20 years. We booked 21 million barrels of proved and probable reserves here in 1998, and hold a 100 per cent interest in this discovery and over 75,000 acres of exploratory lands in the surrounding area.

In 1999, 22 exploration wells will be drilled in this promising area. The Company expects to bring on 6,000 barrels of oil per day in the first half of 2000.

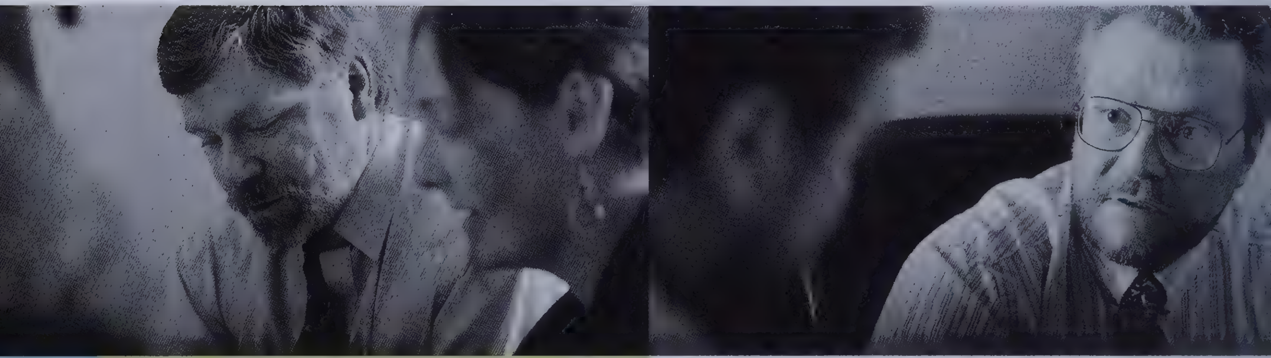
Hay is a prolific field. Each well drilled will produce a significant portion of its total value in the first year. In view of current oil prices, we decided to delay first production by 12 months in order to maximize this value.

great opportunities

As part of our strategy for success in a soft energy market, CanadianOxy concentrated on front-end exploration opportunities (acquisitions and seismic) in 1998. During the year, we acquired a significant number of exciting exploration prospects, giving the Company its largest and most prospective undeveloped land position ever.

high-potential exploration

Nigeria could turn out to be the Company's biggest international play in years.



Planning Group/Nigeria (L to R) Alan Roberts, Kate Glazebrook and Ken Newell

Nigeria: On the Brink of New Discoveries

One of CanadianOxy's most exciting and significant opportunities is located offshore Nigeria. During mid-1998, CanadianOxy acquired a 20 per cent interest on five exploratory blocks – three onshore and two offshore – totalling 2.6 million acres. Late in the year, a significant discovery was made on OPL 222, 97 km offshore, in 762 metres of water. This well, Ukot-1, demonstrated world-class flow rates with the potential for commercialization. We are proceeding with a four-year exploration phase on OPL 222 involving a U.S. $12 million work commitment. This commitment includes plans to collect and interpret 1,000 square km of 3D seismic in 1999 to help delineate the Ukot reservoir and further define other prospects on the block. We hope to drill between two and four delineation wells over the next four years.

CanadianOxy is committed to expanding its operations in Nigeria by acquiring development or exploitation opportunities that have growth potential. Operating in Nigeria is a challenge, but we are confident we can build a competitive advantage in this new area.

Seismic testing is one of the first steps in exploring new acreage.

Laurence Murphy, Senior Vice President, International

We have proven our expertise through the success of the Ukot-1 discovery and the Ejulebe Field production and will use these relationships as a stepping stone to future success in Nigeria.

Gulf of Mexico: Deep Water Excitement

The Company's exploration opportunities in the Gulf of Mexico grew in spectacular fashion in 1998, particularly in the deep waters of the Gulf (water deeper than 180 metres). The deep water of the Gulf of Mexico is one of the most attractive plays in the world right now. Discoveries of one billion barrel fields are not uncommon and CanadianOxy has the ability to make a major discovery. Key to our success is the experience and knowledge we've gained from our shallow-water business and the strength of our partnerships. Maintaining partnerships with larger companies which have the necessary technology and infrastructure in place, ensures lower risk and lower capital expenditures from our end.

During the year, the Company acquired interests in 71 blocks, mostly located in deep water, encompassing approximately 75,000 net undeveloped acres. These blocks all have 10 year leases, with the first 87 million barrels of production per block royalty free. As well, extensive 3D seismic is already available. The average discovery in the deep water Gulf is 100 million barrels. To date, 30 significant prospects have been identified on CanadianOxy's blocks. We have plans to drill one or two deep-water wells in 1999 with ultra deep-water projects (water deeper than 1,200 metres) slated to begin in 2000.

Yemen: New Blocks to Explore

The acquisition of six new blocks (22 million acres) in 1998 greatly increases our exploration opportunities in Yemen and broadens our portfolio. The new blocks are virtually unexplored but we plan to examine existing seismic data and identify prospects in 1999. This research will give us a running start at further exploration, which is planned to commence in 2000.

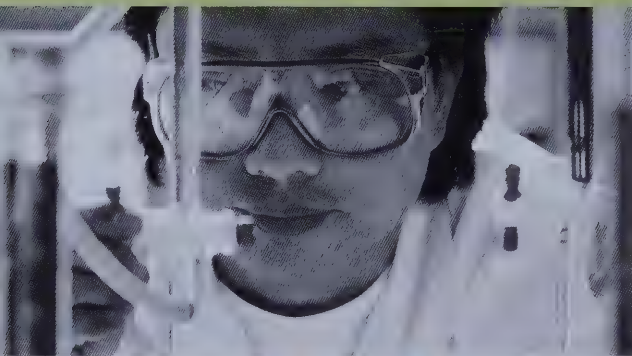
Colombia and Indonesia: A Promising Future

Two other high-potential areas are currently being explored by CanadianOxy. The Company has interest in four blocks in Colombia and one exploration well will be drilled in 1999. We are preparing the lease for drilling Troyano (50 per cent interest), and are proceeding with plans to drill Boqueron (40 per cent interest) and the two Paramo blocks (100 per cent interest). More than 100 million barrels of reserve potential have been identified on a total of 850,000 undeveloped acres. Access to existing infrastructure in Colombia will keep development and production costs low.

CanadianOxy is the fifth largest acreage holder in Indonesia, with interests in two blocks that have significant exploration potential. The Company plans to farm out the drilling of these wells, one offshore Sumatra in the Manna Block and one offshore Seram. Both blocks are 100 per cent owned by CanadianOxy. Although the offshore Seram Block is relatively unexplored, there have been several world-class discoveries on nearby blocks, increasing the potential for a significant discovery at Seram.

Since our chemicals business operates on a different economic cycle than the oil and gas industry, declines in world oil prices do not affect this operation. This helps balance out the Company's revenues when oil prices are low.

Technician Tom Au at the North Vancouver chlor-alkali plant.



Thomas A. Sugalski, Senior Vice President, Chemicals

chemicals: steady growth

pre 1987	1987	1991	1992	1993	1994	1995	1996	1997	1998
42	91	194	231	217	217	349	447	447	447

sodium chlorate production capacity
(thousand short tons)

CXY Chemicals is the third largest North American producer of sodium chlorate, with 447,000 short tons of annual capacity and approximately 20 per cent market share. Sodium chlorate is used as a bleaching agent in the pulp and paper industry during the Essentially Chlorine Free (ECF) bleaching process. This process produces a higher quality bleached pulp, more economically and in an environmentally preferred manner.

CXY Chemicals serves North America's three major pulp-producing regions from six sodium chlorate plants strategically located near these markets, minimizing shipping and delivery costs.

Our facilities were expanded and updated in the mid-'90s, thereby doubling the capacity from 217 to 447 thousand short tons. These improvements increased the efficiency of our operations and require moderate sustaining capital.

In addition to sodium chlorate, CXY Chemicals also produces chlorine and caustic soda.

We continue to operate our North Vancouver, British Columbia, chlor-alkali plant at full capacity as our chlorine has been successfully shifted to new markets and the majority of our caustic soda continues to be in high demand by the pulp and paper industry.

Outstanding Return on Investment

The revenue from the Chemicals division provides an excellent return on investment. Capital costs totalled $17 million in 1998 with free cash flow of $62 million generated.

Our overall low production costs are reflected in the efficiency of our operations.

Over 40 per cent of our sodium chlorate capacity is produced at two of the lowest cost plants in the industry. Our other plants either have favourable cost positions or have geographic advantages.

Increasing Demand Means Business Growth

Demand for sodium chlorate has grown steadily as it replaces chlorine within the pulp and paper industry and we expect this trend to continue.

Although this industry did not experience an outstanding year in 1998, Environmental Protection Agency guidelines being implemented in the United States with respect to pulp bleaching chemicals, will increase the demand across North America for environmentally friendly sodium chlorate.

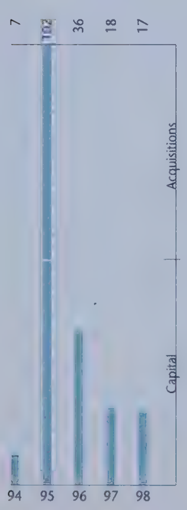
Business growth is also being pursued in the Asian and South American markets where CXY Chemicals has initiated marketing efforts.

Presently we have six strategically located plants in North America. We are initiating expansion into the South American and Asian markets.

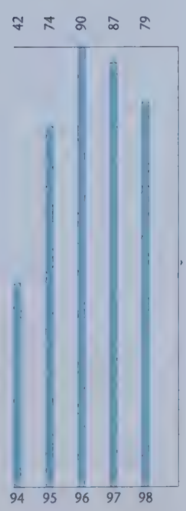
new opportunities

CXY Chemicals provides a reliable, valuable source of free cash flow for CanadianOxy.

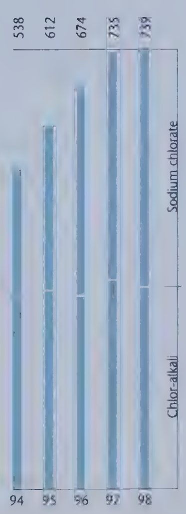
capital expenditures and acquisitions
(millions of dollars)



funds flow from operations
(millions of dollars)



chemicals production
(thousand short tons)



CanadianOxy recognizes that a strong community relations program benefits its business operations, creating strong partnerships with people outside the Company who have a vested interest in its projects.

integrity leadership

CanadianOxy:

- fosters relationships with its key stakeholders
- builds partnerships and enhances the communities where it operates
- protects the environment and the safety of the public
- takes a leadership role in the industry

Responsibility to Key Stakeholders

CanadianOxy is committed to meeting the needs of its key stakeholders who include shareholders, employees and the communities in which it operates. It seeks to add value for shareholders by continually increasing its reserves, acquiring high potential acreage, managing its resources efficiently and maximizing existing assets through exploitation.

In 1998, to support and acknowledge the role of its employee stakeholders, CanadianOxy introduced a 'people strategy' to recognize employee achievement, promote from within corporate ranks and enable employees to reach their career potential.

On a community level, CanadianOxy is committed to improving life in the communities where it operates. In some cases this means supplying infrastructure and equipment to drill wells for potable water, and in others, it may mean building business partnerships, or contributing money or time to charitable causes which build a better future for the community.

Building Community Pride

In 1998, two community initiatives stood out and CanadianOxy is proud to promote these projects

Yemen: Supporting the Leaders of Tomorrow

In 1997, to celebrate 10 years of operations in Yemen, CanadianOxy developed a scholarship program for 20 Yemeni post-secondary students to encourage study in the disciplines most critical to Yemen's economic growth.

The scholarships pay for four years of study at a post-secondary institute in Calgary, Alberta, home of CanadianOxy's headquarters. In December 1998, the first six students arrived in Calgary with the remaining students to follow in 1999 and 2000.

To ensure the success of the program, CanadianOxy developed a strategy and procedures that would maintain the integrity of the candidate selection process and identify the best participants available.

We are thrilled to offer these students an education that will give them the skills and knowledge to become leaders in Yemen and contribute to the development of their country.

CanadianOxy's free health clinic at the Central Processing Facility, Yemen.

CanadianOxy supports community relations programs in the countries where it operates.

partnerships

Canada: Forging Relationships with Canada's Aboriginal People

In Canada, we continued to take bold steps forward in establishing mutually beneficial relationships with aboriginal communities.

In 1998, along with five other industry peers, we developed a standard consultation process with the Dene Tha' First Nation in northeast British Columbia. CanadianOxy's Hay project is located on the traditional lands of the Dene Tha'.

The new process will facilitate a meaningful dialogue regarding potential impacts of proposed oil and gas developments on Dene Tha' traditional lands and provide additional economic benefits to the community.

Leading the Way

In early June, CanadianOxy and the Canadian Energy Resource Institute organized a successful two-day conference in Banff, Alberta, to discuss potential solutions to the gas flaring problem in Nigeria. Nigeria currently flares 75 per cent of its annual production of 1,200 billion cubic feet of gas. This is equivalent to 30 per cent of all gas flared worldwide.

Prominent Nigerian government representatives and business executives, as well as participants from across Canada and the United States met to discuss practical solutions that could be implemented by Nigeria as part of its vision for the future. This initiative identified CanadianOxy as a proactive industry leader.

Environment, Health and Safety: An Ongoing Consideration

CanadianOxy is committed to protecting the environment, health and safety of its employees, contractors and the public. It has incorporated environment, health and safety considerations into all aspects of business operations from initial planning of construction sites, wells or production facilities, to eventual remediation and abandonment of sites. CanadianOxy believes its business success is directly linked to strong performance in these areas.

The Company is a strong and committed advocate of voluntary initiatives such as: the Responsible Care® program, the Voluntary Challenge and Registry, the National Emissions Reduction Masterplan, the multi-stakeholder Accelerated Reduction and Elimination of Toxics program, and numerous other initiatives.

International Code of Ethics

Promoting and demonstrating ethical business practices is a key element of CanadianOxy's business values. In 1997, we played a leadership role in developing an International Code of Ethics for Canadian Business. The code provides general principles for community participation, environmental protection, business conduct and employee health and safety. The federal government of Canada has endorsed the code along with many other Canadian companies.

CanadianOxy is addressing the Year 2000 issue in order to protect the returns earned by shareholders, the environment, the health and safety of our employees and the communities where we operate.

Y2K Q A

How long has the Y2K Team been working on this problem?

In early 1997, the Company formed a team to deal with the Y2K issue consistently, across all areas of the corporation. This project team includes employees and various external consultants who report regularly to top management and the Board of Directors.

What has the Y2K Team accomplished to date?

In 1997 the Y2K Team completed an inventory of all devices potentially at risk from a Y2K-related failure. The inventory is prioritized according to the impact if the device is not compliant. High impact device failure affects health and safety, environmental management or creates significant financial loss. Medium impact device failure would create greater than normal operational disruption, financial loss, damage to reputation or impact on our business associates. A low impact is defined as a device failure that inconveniences normal operations.

We decided to test and fix all high or medium impact devices. Testing was completed in 1998. By December 1998, the team had corrected 80 per cent of the deficient devices and expects to fix the last device by June 1999.

What are the next steps?

In 1998, we completed an inventory identifying companies whose support is critical in maintaining normal operations. In 1999, we will evaluate and work with these companies to ensure we understand the Y2K impact on them. Our assessment of their readiness will determine what actions we will take to reduce the impact on our operations in the event these companies cannot meet their obligations.

What if something happens that the Y2K Team did not anticipate?

The Y2K Team has developed a Y2K contingency plan to deal with any unforeseen circumstances that may impact our operations.

The following comprises the Management's Discussion and Analysis as contained in the Company's Annual Report on Form 10-K and additional information relating to funds flow from operations. This should be read in conjunction with the Consolidated Financial Statements included in this report. The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in Canada. The impact of the significant differences between Canadian and United States accounting principles on the financial statements is disclosed in Note 16 to the Consolidated Financial Statements. Unless otherwise noted, tabular amounts are in millions of dollars, and sales and production volumes are before royalties

md&a

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview of 1998

CanadianOxy achieved record production rates, significant proved reserve additions and low-cost reserve replacement. In Yemen and the Syncrude joint venture, record production levels were achieved. Production in the Gulf of Mexico increased 10 per cent over last year while Canada's production increased slightly after an aggressive asset disposition program. The Ejulebe project, offshore Nigeria, was brought on-stream in September and averaged 9,200 bbls/d in the fourth quarter.

The Company managed a $950 million capital reinvestment program during the year. Approximately 65 per cent of oil and gas expenditures were for development activities with the remainder for exploration projects. The capital program resulted in an oil discovery at Hay River, located in northeast British Columbia, and proved reserve additions of 71 million barrels on the Masila Block in Yemen. In total, the Company added 158 million barrels equivalent of proved reserves, replacing 180 per cent of production.

The financial results were adversely impacted by the downturn in crude oil prices. On a barrel of oil equivalent ("boe") basis, CanadianOxy's crude oil production represents approximately 80 per cent of total production. The West Texas Intermediate crude oil reference price ("WTI") averaged U.S. $14.43 per barrel, the lowest annual average since 1977 and a 30 per cent decrease from the 1997 average. Relatively strong natural gas prices in North America and a very weak Canadian dollar helped to cushion the impact of lower crude oil prices.

During 1998 and early 1999, CanadianOxy has been actively restructuring its balance sheet in response to low crude oil prices. The Company has issued U.S. $459 million of unsecured junior subordinated debentures ("preferred securities"), because they have a number of features which in light of the current market conditions, provide considerable financial flexibility. The preferred securities provide a solid base of fixed rate financing, interest payments are tax deductible and they mature in 49 years. They are callable in five years, providing the Company with significant flexibility to respond to changes in interest rates and commodity prices. Further flexibility is provided from options which allow the Company to defer interest payments for up to five years and to settle the deferred interest payments or principal by issuing common shares. Proceeds from the issuance of preferred securities and senior notes have been used to reduce the Company's bank debt. These initiatives have positioned the Company to allow it to continue to pursue its business strategies despite very difficult times in the oil industry.

CanadianOxy recorded a loss of $110 million ($0.83 per common share) as compared to net income of $139 million ($1.02 per common share) in 1997 and $190 million ($1.40 per common share) in 1996. Lower crude oil prices as compared to 1997 reduced after-tax income by approximately $220 million. Included in the loss of $110 million are non-recurring after-tax charges of $40 million related to a write-down of the Ejulebe assets offshore Nigeria, and $12 million related to employee termination costs. Offsetting these charges are after-tax gains of $112 million arising from property dispositions.

Funds flow from operations was $600 million ($4.34 per common share) as compared to $865 million ($6.34 per common share) in 1997 and $766 million ($5.64 per common share) in 1996. Funds flow from operations is defined as the sum of "Net Income," "Charges and Credits to Income not Involving Cash" and Exploration Expense." The decrease over 1997 was a result of lower oil prices.

Operating Segments

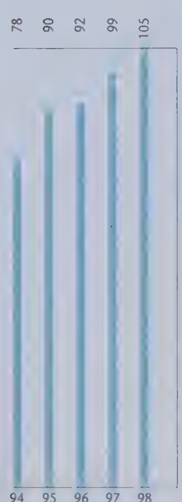
The following discussion should be read in conjunction with Note 15 to the Consolidated Financial Statements. Segment operating results exclude financing related items, unallocated selling, administrative and other expenses and income taxes.

Yemen

(millions of dollars)	1998			1997			1996		
	Volume	Amount		Volume	Amount		Volume	Amount	
Crude Oil Sales[1] and Prices									
(mbbls/d and $/bbl)	**105.7**	**$**	**16.92**	99.2	$	25.60	90.7	$	27.42
Net Sales		**$**	**399**		$	497		$	522
Operating Profit		**$**	**154**		$	279		$	268
Capital Expenditures		**$**	**124**		$	49		$	156

Note:
[1] Production volumes were 104.7 mbbls/d (1997 - 98.6 mbbls/d; 1996 - 92.1 mbbls/d). Sales volumes differ from production volumes due to the timing of tanker loadings.

Yemen daily production
(thousands of barrels)



Production volumes from the Masila Block have grown by six per cent over 1997 levels, achieving an annual record of 201,300 bbls/d (104,700 bbls/d net to CanadianOxy). CanadianOxy had a two-rig drilling program on the Masila Block. The increased activity level combined with a very successful development drilling program resulted in production increases. Increased production in 1997 over 1996 similarly reflected successful development drilling and the expansion of facilities to handle an increase in total fluids produced.

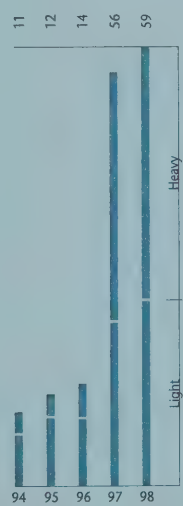
The average price received for Masila Blend crude oil reflects world crude oil prices as the Company sells under short-term contracts. The WTI to Masila differential was U.S. $2.97 as compared to U.S. $2.08 and U.S. $1.92 in 1997 and 1996, respectively. The wider differential reflects reduced demand in Southeast Asia, the primary market for Masila crude.

Under the terms of the production sharing agreement, production is divided into cost recovery oil and profit oil. Cost recovery oil provides for the non-government participants' recovery of operating, exploration and development costs over one, four and six years, respectively, to a maximum of 40 per cent of production during each fiscal year. Profit oil is that portion of production remaining after deducting cost recovery oil and is shared on a sliding scale basis amongst the Government of Yemen and the participants, based on production rates. The amount of cost recovery oil available each year is dependent upon the costs available for recovery and the price received for each barrel of oil.

Under the Company's accounting policy, the carried interest component of cost recovery oil revenue, from which the Company recovers costs deemed incurred on the government's behalf, is offset by operating costs and depreciation and depletion thereby not contributing to operating profit or net income. As such cost recovery oil declines, the related increase in profit oil results in increased operating profit which is offset by an increase in income taxes paid. The remaining decline in cost recovery oil and increase in profit oil results in increased operating profit.

Net sales and operating profit decreased from 1997 levels as lower crude oil prices offset higher sales volumes. In 1997, net sales increased over 1996 due to lower cost recovery oil and lower crude oil prices partially offset by an increase in profit oil from lower cost recovery oil and higher sales volumes.

Canada daily crude oil production
(thousands of barrels)



In 1998, CanadianOxy received 27 per cent of the Masila Project's production with the balance going to the Government of Yemen and the other participants. In 1997 and 1996, CanadianOxy received 22 and 24 per cent of the production, respectively. The increase during 1998 reflects the impact of lower crude oil prices. Based on past unrecovered capital expenditures and 1999 budgeted expenditures, production and prices, the Company estimates that cost recovery oil revenue and its share of production will approximate 1997 levels.

Capital expenditures during the past three years relate to development drilling and expansion of facilities to handle an increase in total fluids produced. All development spending to date has been carried out on the Masila Block. In addition, capital spending for 1998 includes $39 million for exploration activities on Blocks 50 and 51 in Yemen. The Company acquired interests in these blocks during 1998 and has conducted seismic programs on both blocks, and drilled two unsuccessful exploration wells on Block 51. In 1996, expenditures included the Company's $107 million share of the payment to the Government of Yemen which provided for prepayment of and release from further obligation regarding future dismantlement and site restoration costs, entitlement to revenues for transportation of production from nearby fields, and approval of all costs incurred through December 31, 1995 as recoverable costs.

Canada

(millions of dollars except as otherwise noted)	**1998**		1997		1996	
	Volume	Amount	Volume	Amount	Volume	Amount
Crude Oil and Natural Gas Liquids Sales[1]						
and Prices (mbbls/d and $/bbl)						
Light	**24.7**	**$ 18.75**	22.1[2]	$ 24.67	9.1	$ 26.48
Heavy	**34.5**	**$ 8.81**	33.5[2]	$ 14.96	4.7	$ 20.49
Natural Gas Sales[1] and Prices						
(mmcf/d and $/mcf)	**271**	**$ 1.94**	256[2]	$ 1.81	127	$ 1.56
Net Sales[1]		**$ 367**		$ 449		$ 163
Operating Profit (Loss)[1]		**$ (99)**		$ 17		$ 29
Capital Expenditures[1]		**$ 291**		$ 436		$ 153

Notes:

(1) Wascana's operations are included commencing April 15, 1997. Certain pro forma information showing the impact as if the acquisition had occurred on January 1, 1997 and 1996 is included in Note 3 to the Consolidated Financial Statements.

(2) 1997 daily production reflects post-acquisition production averaged over 365 days. Actual daily production during the period from April 15, 1997 to December 31, 1997 averaged 71.9 mbbls/d of oil and 315 mmcf/d of natural gas.

Canada daily natural gas production
(millions of cubic feet)

In Canada, crude oil and natural gas production increased six per cent over 1997 levels. The increase is attributable to a full year of production from the Wascana acquisition offset by a significant asset disposition program.

Since the acquisition of Wascana in mid-1997, the Company has undertaken a significant initiative to streamline its asset portfolio in order to focus on those areas with the greatest long-term potential. Since mid-1997, the Company has disposed of $755 million of non-core Canadian oil and gas properties, $313 million related to 1998 property sales. The properties disposed of produced 20,000 bbls/d of oil and 120 mmcf/d of natural gas.

CanadianOxy's crude oil and natural gas production are sold under short-term contracts. Crude oil prices are based on various reference prices, primarily the price of WTI. Heavy oil pricing reflects the overall level of oil prices plus quality differentials and condensate costs. During 1998, 50 per cent of the natural gas sold was based on the NYMEX pricing, 40 per cent on Alberta spot pricing and 10 per cent under fixed price contracts. During 1997, 30 per cent was based on NYMEX pricing and 70 per cent on Alberta spot pricing. During 1996, substantially all of the natural gas sold was based on Alberta spot pricing.

Net sales decreased due to lower crude oil prices. This was partially offset by an increase in production volumes and natural gas prices. Operating profit declined as the depletion rate per barrel of oil equivalent increased to $8.79 from $7.46 in 1997, as a result of the full year impact of the Wascana acquisition. Operating costs also increased slightly over 1997 levels. Net sales in 1997 increased substantially over 1996 as a result of the Wascana acquisition and the intensive capital expenditure program which followed. Operating profit was lower due to increased exploration expense and higher depreciation, depletion and amortization.

During 1998, 80 per cent of the $291 million capital expenditure program was directed towards development activities as compared to 75 per cent in 1997. The development activities were focused on high-margin projects. The increase in capital in 1997 from 1996 was a result of the Wascana acquisition.

United States

(millions of dollars except as otherwise noted)	**1998**		1997		1996	
	Volume	Amount	Volume	Amount	Volume	Amount
Crude Oil Sales and Prices						
(mbbls/d and $/bbl)	**12.1**	**$ 19.03**	12.7	$ 27.32	13.4	$ 29.43
Natural Gas Sales and Prices						
(mmcf/d and $/mcf)	**115**	**$ 3.25**	95	$ 3.73	78	$ 4.04
Net Sales		**$ 183**		$ 212		$ 214
Operating Profit		**$ –**		$ 60		$ 56
Capital Expenditures		**$ 230**		$ 166		$ 161

Gas production in the Gulf of Mexico has increased 21 per cent over 1997 levels. A successful exploration program at Vermilion and tie-in of exploration successes have contributed to the increased volumes. Oil volumes are down slightly compared to 1997 levels, reflecting natural declines.

Prices received are generally consistent with fluctuations in world crude oil prices and the NYMEX natural gas price as the majority of production is sold under short-term contracts. Local supply and demand fundamentals can also impact crude oil prices received by the Company.

Net sales decreased from 1997, as natural gas volume increases were more than offset by a decrease in commodity prices. Operating profit was lower as a result of increased depreciation, depletion and amortization expense. Sales in 1997 were consistent with 1996 levels.

During 1998, the Company carried out a $230 million capital expenditure program in the United States. The acquisition of a 90 per cent working interest in Eugene Island Block 18, a producing property in the shallow waters of the Gulf was $45 million while $53 million related to the acquisition of undeveloped acreage in the deeper waters of the Gulf. The remaining expenditures were focused on exploitation and development programs and a five-well exploratory drilling program.

United States daily natural gas production
(millions of cubic feet)

North Sea

(millions of dollars except as otherwise noted)	1998		1997		1996	
	Volume	Amount	Volume	Amount	Volume	Amount
Natural Gas Sales and Prices						
(mmcf/d and $/mcf)	34	$ 5.72	38	$ 5.02	37	$ 4.61
Net Sales		$ 64		$ 69		$ 60
Operating Profit (Loss)		$ 112		$ 21		$ (5)
Capital Expenditures		$ 6		$ 30		$ 34

CanadianOxy's oil and gas assets in the North Sea were sold effective December 31, 1998 for proceeds of $210 million. A pre-tax gain of $101 million was recorded on the disposition.

Other Countries

(millions of dollars except as otherwise noted)	1998		1997		1996	
	Volume	Amount	Volume	Amount	Volume	Amount
Crude Oil Sales and Prices						
(mbbls/d and $/bbl)	4.4	$ 15.34	4.6	$ 16.10	3.8	$ 16.16
Net Sales		$ 21		$ 24		$ 21
Operating Loss		$ (163)		$ (89)		$ (55)
Capital Expenditures		$ 226		$ 168		$ 72

Crude oil volumes and net sales for 1998 relate to producing properties in Ecuador and Nigeria. Nigeria commenced production in late September and is currently producing 10,000 bbl/d. 1997 volumes and sales relate to properties in Ecuador and Venezuela. The operating loss reflects exploration expenditures on projects in various countries worldwide, and an impairment charge of $40 million for the Ejulebe Field, offshore Nigeria.

As part of its long-term growth strategy, CanadianOxy pursues a diversified portfolio of exploration opportunities. The Company accounts for exploration on a successful efforts basis whereby the costs of unsuccessful exploration activities are expensed in the year incurred. The 1998 operating loss reflects exploration expense from expenditures relating to the acquisition of seismic data, unsuccessful exploration drilling and business development activities. During 1998, exploration expense consisted primarily of unsuccessful exploration wells in Australia,

Indonesia and Nigeria, and seismic activities in Nigeria and Colombia. During 1997, exploration expense consisted primarily of unsuccessful exploration wells in Indonesia, Vietnam and Australia, and the acquisition of seismic data in Colombia. In 1996, it included two unsuccessful exploration wells in Nigeria and the amortization of capitalized costs.

In 1997 and 1998, capital expenditures also included expenditures relating to the construction of facilities and development drilling on the Ejulebe Field in Nigeria.

Alternate Fuels

(millions of dollars except as otherwise noted)	1998			1997			1996		
	Volume		Amount	Volume		Amount	Volume		Amount
Synthetic Crude Oil Sales and Prices									
(mbbls/d and $/bbl)	**15.2**	**$**	**20.77**	15.0	$	28.19	14.5	$	29.44
Net Sales		**$**	**115**		$	140		$	127
Operating Profit		**$**	**27**		$	49		$	39
Capital Expenditures		**$**	**36**		$	26		$	16

Alternate Fuels' profitability is primarily dependent on the prices received for synthetic crude oil, volumes produced, the net profits interest payment to the Province of Alberta and production costs. Although record sales levels were achieved in 1998, net sales decreased 18 per cent due to lower crude oil prices. As a result of lower prices and a change to the royalty structure in 1997, no net profits interest payment was made in 1998 as compared to nine per cent of gross revenues in 1997 and 19 per cent in 1996. Production costs decreased, averaging $13.52 per barrel as compared to $13.93 per barrel in 1997 and $13.85 in 1996.

Capital expenditures increased in 1998 due to commencement of development of the Aurora mine.

Marketing

CanadianOxy is involved in various crude oil and natural gas marketing activities intended to enhance its oil and gas operations through greater customer satisfaction and market diversification, economies of scale and improved transportation access. The Company enters into contracts to purchase and sell crude oil and natural gas in order to gain control over larger quantities than is available from its proprietary production. This activity exposes the Company to commodity price risk between the time contracted volumes are purchased and sold. This risk is managed by generally matching contracted purchases and sales, and through the use of derivative instruments comprising futures, swaps and options traded on the NYMEX. Open positions may exist where not all contracted purchases and sales have been matched in order to take advantage of market differences. The extent of exposure under these activities is restricted to prescribed limits and is monitored by a daily value-at-risk calculation as described under the heading "Financial Risk Exposures and Management – Commodity Price Risk." CanadianOxy marketed 202,000 bbls/d of crude oil and 1.9 billion cubic feet per day ("bcf/d") of natural gas, of which 128,000 bbls/d and 1.6 bcf/d were acquired from third parties. Net revenue from these activities, including the related derivative instruments, was $28 million.

CanadianOxy also earns fee-based revenues from its ownership interest in various regional pipelines in Western Canada, from marketing natural gas on behalf of others and from making its long-term pipeline capacity commitments available to third parties. Revenues generated from these activities are not significant.

Consistent with the Company's intention and management regarding the revenues to be derived from its marketing activities, CanadianOxy records the sales and cost of sales on a net basis and includes such amount in "Marketing, Interest and Other Income" in the Consolidated Statement of Income. Related accounts receivable and accounts payable are recorded in the Consolidated Balance Sheet on a gross basis reflecting the full extent of CanadianOxy's exposure to credit risk and its obligations.

Chemicals

(millions of dollars except as otherwise noted)		1998		1997		1996
Production (thousand short tons)						
Sodium chlorate		399		383		349
Chlor-alkali[1]		340		352		325
Sales (thousand short tons)						
Sodium chlorate		399		385		349
Chlor-alkali[1]		313		334		318
Sales	$	258	$	260	$	255
Operating Profit	$	54	$	56	$	66
Capital Expenditures	$	17	$	18	$	36

Note:
(1) Sales volumes differ from production volumes primarily due to the use of chlorine in the production of muriatic acid.

CanadianOxy manufactures sodium chlorate and chlor-alkali (caustic soda, chlorine and muriatic acid) in Canada and sodium chlorate in the United States. Sodium chlorate and caustic soda are sold primarily to the North American pulp and paper industry, and chlorine is sold to the pulp and paper, water treatment and PVC industries.

Sodium chlorate sales volumes have increased over the past three years consistent with the addition of increased plant capacity and increased demand as pulp and paper companies move away from traditional bleaching agents. Sales increases have been moderated during this period by lower operating rates in the pulp and paper industry. Chlor-alkali production and sales volumes decreased as a result of a weak PVC market and lower operating rates in the pulp and paper industry.

Sales in 1997 were higher than 1996 due to increased demand for PVC in Asia which resulted in increased exports of chlorine from North America.

A strong sodium chlorate market offset a weaker chlor-alkali market resulting in net sales being relatively unchanged. Operating profit was also relatively unchanged from 1997. During 1997, increased sales volumes resulted in higher sales, however, operating profit was lower due to a reduction in caustic soda and sodium chlorate prices and a $6 million write-off of a receivable from a pulp and paper customer.

Consolidated Results of Operations

Net Sales

The decrease in net sales was attributable to the following:

(millions of dollars)			1998 vs. 1997		1997 vs. 1996
Crude Oil	Price	$	(313)	$	(41)
	Volume[1]		42		261
	Yemen cost recovery[2]		10		(29)
Natural Gas	Price		2		12
	Volume[1]		17		81
Chemicals	Price		(7)		(12)
	Volume		5		17
Other			3		30
Increase (decrease) in net sales over prior year		$	(241)	$	319

Notes:
(1) Includes the impact of the Wascana acquisition effective April 14, 1997.
(2) Reflects the change in cost recovery oil due to reduced costs available for recovery in the year net of the related increase in profit oil.

Gain on Disposition of Assets

Gains in 1998 related to the disposition of the Company's oil and gas assets in the United Kingdom sector of the North Sea and producing properties and undeveloped land in Canada. In 1997, the gains related to the disposition of properties in Canada and, in 1996, to the disposition of properties in Canada and the United States.

Marketing, Interest and Other Income

Marketing, interest and other income consists of net revenues from marketing activities, interest income and one-time income items. The increase in 1998 is due to an increase in net revenues from marketing activities. The increase in 1997 reflected $17 million of marketing related income, proceeds from the settlement of a natural gas contract and increased interest income.

Cost of Sales

On a barrel of oil equivalent basis, conventional production costs for oil and gas properties were $3.30 as compared to $3.13in 1997 and $2.54 in 1996. The increase in 1998 reflects the full year impact of the Wascana acquisition.

Chemical operating costs increased over 1997 due to increased electrical costs. The increase in 1997 over 1996 was due to increased volume.

Selling, Administrative and Other

Selling, administrative and other increased $27 million over 1997 as a result of a $20 million charge for employee termination costs.

Depreciation, Depletion and Amortization

Included in the current year's depreciation, depletion and amortization expense is $40 million related to an impairment charge for the Ejulebe Field in Nigeria.

Excluding the asset write-down, depreciation, depletion and amortization expense was $6.96 per barrel of oil equivalent, as compared to $6.43 in 1997 and $6.83 in 1996. The increase in the current year is a result of the inclusion of a full year's depreciation, depletion and amortization on the Wascana assets. The increase in 1997 over 1996 is also due to the Wascana acquisition.

Exploration Expense

(millions of dollars)	1998	1997	1996
Seismic	$ 45	$ 45	$ 28
Unsuccessful Drilling	90	66	64
Other	52	37	27
	$ 187	$ 148	$ 119

CanadianOxy's near-term and long-term growth strategy involves the exploration for new sources of reserves and production. Despite the downturn in the price of oil, CanadianOxy has continued to build a large portfolio of exploration opportunities worldwide. These opportunities include low-risk exploration projects in Canada and the shallow water of the Gulf of Mexico, and higher risk prospects in Yemen, Nigeria, Indonesia, Colombia, Australia and the deep water of the Gulf of Mexico. The Company has moved into a phase of active exploration of these prospects resulting in an increase in expenditures for seismic data and exploration drilling. The increasing trend in exploration expense reflects these activities. In response to low crude oil prices, CanadianOxy plans to reduce its exploration activities in 1999.

Interest Expense

Interest expense increased over 1997 reflecting the full year impact of increased levels of indebtedness associated with the Wascana acquisition. At December 31, 1998, CanadianOxy had fixed the interest rates for varying periods on 77 per cent of its long-term debt at an effective rate of 7.1 per cent. Financings, property dispositions and other activities subsequent to year end resulted in 80 per cent of its long-term debt being fixed at an effective rate of 7.2 per cent.

Provision for Income Taxes

For 1998, CanadianOxy had a loss of $94 million before income taxes and a tax provision of $16 million. This is due to the non-tax deductibility of a portion of the depletion associated with the Wascana acquisition. Approximately $145 million of depletion, depreciation and amortization is expensed for accounting purposes but is not deductible for tax purposes. Additional information regarding the variations from the expected tax rate is provided in Note 13 to the Consolidated Financial Statements.

Current income taxes were paid in Yemen, the United States and the United Kingdom. In addition, Alternative Minimum Tax was paid in the United States and Large Corporation Tax was paid in Canada.

Liquidity and Capital Resources

Cash generated from operating activities was $696 million as compared to $877 million in 1997 and $768 million in 1996. The lower operating cash flow in 1998, compared with 1997, reflects lower crude oil prices. 1997 was higher than 1996 as a result of the Wascana acquisition. The Company sold accounts receivable in the amounts of $115 million, $100 million and $34 million at December 31, 1998, 1997 and 1996, respectively. These sales advance the collection of non-interest bearing receivables which are used to reduce interest-bearing obligations.

Investing activities used cash of $592 million as compared to $2,062 million in 1997 and $583 million in 1996. Capital expenditures of $950 million were financed from the proceeds of asset dispositions, deferred payment terms and cash generated from operating activities. Approximately $285 million of disposition proceeds were received subsequent to year end. Investing activities in 1997 included the acquisition of Wascana for $1,680 million (net of cash acquired).

CanadianOxy reduced short-term borrowings and long-term debt by $513 million. This resulted from the issuance of Preferred Securities for net proceeds of $369 million and cash generated from operations and asset dispositions in excess of capital expenditure and other financing requirements.

At December 31, 1998, the Company had a working capital deficiency of $315 million including $401 million of short-term borrowings. These borrowings were repaid subsequent to year end from proceeds of dispositions received in January 1999 and long-term facilities. Long-term debt totalled $1,378 million of which $26 million is scheduled for repayment in 1999. The Company intends to refinance the 1999 repayments through existing long-term facilities and, accordingly, such amounts are not included in current liabilities.

In response to low crude oil prices, CanadianOxy has actively restructured its balance sheet to increase its financial flexibility and liquidity. Since the beginning of 1998, the Company significantly reduced its reliance on bank debt and extended the average term to maturity of its long term debt by raising money in public debt markets. The Company has no significant principal repayments until 2003. In April, U.S. $200 million of 30 year, 7.4 per cent notes were issued and in October, U.S. $259 million of 49 year, 9.75 per cent preferred securities were issued. In February 1999, the Company issued U.S. $225 million of five year, 7.125 per cent notes and U.S. $200 million of 49 year, 9.375 per cent preferred securities. The preferred securities provide a solid base of fixed rate financing, interest payments are tax deductible and they mature in 49 years. They are callable in five years, providing the Company with significant flexibility to respond to changes in interest rates and commodity prices. Further flexibility is provided from options which allow the Company to defer interest payments for up to five years and to settle the deferred interest payments or principal by issuing common shares. These initiatives have positioned the Company to allow it to continue to pursue its business strategies despite very difficult times in the oil and gas industry.

The financing initiatives undertaken by CanadianOxy have enabled it to maintain significant amounts of borrowing capacity in a very soft energy market. The Company currently has unused committed long-term lines of credit of approximately $1.4 billion and undrawn short-term operating loan facilities of $89 million. The Company also has an authorized commercial paper program of $500 million which is supported by unused lines of credit . The Company expects that cash generated from operating activities and amounts available under existing lines of credit will be more than sufficient to fund its 1999 capital program and meet future obligations as they become due.

The Company declared common share dividends of $0.30 per common share in each of the years 1998, 1997 and 1996.

Foreign Investments

Portions of CanadianOxy's assets are located in countries outside North America, some of which may be considered politically and economically unstable. These assets and the related operations are subject to the risk of actions by governmental authorities and insurgent groups. It is CanadianOxy's policy to conduct its business so as to minimize such risks. At December 31, 1998, the carrying value of CanadianOxy's identifiable assets in countries outside North America aggregated approximately $862 million or 20 per cent of the Company's total assets.

The United States dollar is the functional currency of the Company's foreign operations. Capital expenditures, operating costs and revenues earned in these foreign locations are principally transacted in United States dollars. The Company has no material exposure to highly inflationary foreign currencies. In addition, there are no restrictions on accessing cash generated in any foreign operation.

Financial Risk Exposures and Management

In the normal course of its business, the Company is exposed to market risks resulting from fluctuations in foreign currency exchange rates, interest rates and commodity prices. CanadianOxy manages these risks by operating in a manner intended to minimize its exposure to the extent practical, and through the periodic use of derivative financial instruments and derivative commodity instruments (collectively "derivative instruments"). The Company's financial risk profile at December 31, 1998 and its management thereof are described in Note 7 to the Consolidated Financial Statements.

CanadianOxy has formal written policies relating to the use of derivative instruments. The exposure relating to outstanding derivative instruments held in connection with marketing activities is restricted to prescribed limits and is monitored by a daily value-at-risk calculation. The use of derivative instruments for other purposes must be approved by the Chief Executive Officer and, in excess of prescribed limits, by the Board of Directors. The Finance Committee of the Board of Directors reviews the results of derivative activities and all outstanding positions on a regular basis.

Foreign Currency Rate Risk

A substantial portion of CanadianOxy's operations are exposed to short-term fluctuations in the Canadian to United States dollar exchange rate. Revenues, operating costs and capital expenditures of foreign operations are principally denominated in United States dollars. In addition, crude oil and a portion of natural gas prices received from Canadian-based operations are referenced to United States dollar denominated prices. CanadianOxy's net investments in foreign operations are exposed to longer-term fluctuations in the exchange rate.

The Company manages its exposure to exchange rate fluctuations by generally matching United States dollar denominated cash inflows with similarly denominated cash requirements. Since the timing of cash inflows and outflows is not necessarily interrelated, particularly regarding capital expenditures, CanadianOxy maintains revolving United States dollar borrowing facilities which can be utilized or repaid depending on the net cash flows. In addition, CanadianOxy maintains long-term United States dollar denominated borrowings which it

designates as a hedge against its net investments in foreign operations. CanadianOxy occasionally utilizes derivative financial instruments to effectively convert future cash flows from Canadian to United States dollars or vice versa. Information regarding CanadianOxy's foreign currency net investments, borrowings and related derivative financial instruments is provided in Note 7 to the Consolidated Financial Statements.

Based on the foreign exchange rate, results of operations, and levels of production and borrowings at and for the year ended December 31, 1998, a one cent increase in the Canadian to United States dollar exchange rate would have increased the loss by approximately $6 million.

Interest Rate Risk

CanadianOxy is exposed to fluctuations in short-term Canadian interest rates as a result of the use of floating rate debt and, to a lesser extent, the use of derivative financial instruments as their market value is sensitive to interest rate fluctuations. The Company maintains a portion of its debt capacity in revolving, floating rate bank facilities with the remainder issued in fixed rate borrowings. To minimize its exposure to interest rate fluctuations, the Company occasionally enters into interest rate swap agreements and exchange contracts to effectively fix the interest rate on floating rate debt.

At December 31, 1998, the Company had $401 million of short-term borrowings and $294 million of floating rate long-term debt, net of derivative financial instruments.

Based on CanadianOxy's floating rate long-term debt, short-term borrowings and derivative financial instruments at December 31, 1998, a one per cent increase in interest rates would have increased the loss by approximately $5 million.

Commodity Price Risk

Prices received for crude oil and natural gas are impacted in varying degrees by factors outside the Company's control. Crude oil prices are influenced by worldwide factors such as OPEC actions, political events and supply and demand fundamentals. In addition, quality differential price adjustments are also influenced by local market supply and demand fundamentals. Natural gas prices are generally influenced by local market supply and demand fundamentals, although Canadian and United States markets are becoming more closely linked as new export capacity is added in Canada. The majority of the Company's production is sold under short-term contracts thereby exposing CanadianOxy to short-term price movements. As described in Note 7 to the Consolidated Financial Statements, CanadianOxy may occasionally use derivative financial instruments in its management of such risks.

Based on the results of operations, production levels and the Canadian to United States dollar exchange rate as at and for the year ended December 31, 1998, a U.S. $1.00/bbl decrease in crude oil prices received would have increased the loss by approximately $35 million, and a U.S. $0.10/mcf decrease in North American natural gas prices received would have increased the loss by approximately $10 million.

The marketing activities also expose the Company to commodity price risk. The exposure is managed by generally matching contracted purchases and sales, and through the use of derivative instruments comprising futures, swaps and options traded on the NYMEX. The extent of exposure is restricted to prescribed limits and is monitored by a daily value-at-risk ("VAR") calculation which assesses the potential loss that may arise from adverse changes in market factors for a specified time period and confidence level. The Company's VAR calculation uses a two-day time period, representing the time period necessary to unwind a position, and a 95 per cent confidence level.

At December 31, 1998, the VAR for marketing activities was $8 million and ranged from a low of $5 million to a high of $10 million during 1998. Although VAR is a reasonable measure of exposure, it does not represent the maximum possible loss, nor is it necessarily indicative of actual results which may occur.

Environmental Expenditures

The Company's worldwide operations are subject to increasingly stringent government laws and regulations. These laws and regulations generally require the Company to remove or remedy the effect of its activities on the environment at present and former operating sites, including dismantling production facilities and remediating damage caused by the disposal or release of specified substances. The Company operates in a manner intended to ensure that its projects around the world meet appropriate North American or western European environmental standards and believes that its operations comply in all material respects with applicable environmental regulations.

Of significance to the chemicals operations are regulations which apply to its pulp and paper customers. In British Columbia, current regulations allow discharge of 1.5 kg of adsorbable organically-bound halogens ("AOX") per tonne of pulp produced. This limit decreases to zero in 2002. Consequently, the use of chlorine as a bleaching agent is under pressure as customers move to elemental chlorine-free pulp bleaching. Other Canadian provinces and the United States have established more reasonable, science-based AOX levels which the pulp and paper industry can meet with the use of sodium chlorate as the bleaching agent. The chemicals industry is working with the Canadian Chlorine Coordinating Committee, the Chlorine Chemistry Council and the pulp and paper industry to have the Province of British Columbia reassess its position. The Government of Canada is working with the industry to manage, rather than eliminate, the use of chlorinated substances.

At December 31, 1998, $136 million had been provided in the accounts for future dismantlement and site restoration costs which are currently estimated to be approximately $375 million for all of CanadianOxy's oil and gas and chemicals facilities. The Company periodically performs internal and external assessments of its operations and adjusts its estimate and annual allowance accordingly. During 1998, CanadianOxy recorded an allowance for future dismantlement and site restoration costs of $22 million (1997 - $20 million). Actual capital expenditures for the year amounted to $11 million (1997 - $7 million). It is anticipated that the allowance and actual expenditures in 1999 will be lower than 1998 amounts due to the disposition of properties during the year.

Year 2000 Readiness

CanadianOxy has established a project team to coordinate its efforts to assess its exposures and to remediate any computer-related problems pertaining to the Year 2000 century change. The project team is comprised of dedicated employees and various external consultants. It reports regularly to an executive steering committee. In addition, the Audit and Conduct Review Committee of the Board of Directors reviews the project plan, findings, progress and cost estimates at each meeting. To ensure the transition to the next century goes smoothly, this process will continue until the formal termination of the Company's Year 2000 project in March 2000.

Four distinct areas are being managed within the project: information systems, operating processes, business associates and contingency plans.

Information Systems

Inventory and assessment phases were completed in 1998. Inventory is updated regularly for purchases of new systems and retirements of existing systems. Systems in which a failure would pose a risk to the environment or employee health and safety, or which could produce a significant financial loss, have been assessed through internal testing. Approximately 40 per cent of the systems tested required some form of remediation. The degree of remediation ranged from installing vendor-supplied upgrades to reconfiguring interfaces with other systems. All assessment results were then validated with the appropriate operating units. Remediation was approximately 80 per cent complete at December 31, 1998, with the remainder expected to be completed early in the second quarter of 1999. This schedule was established based on the expected timing of vendor-supplied upgrades and normal year-end processing requirements which prevented the earlier implementation of compliant systems. Monitoring compliant systems is expected to be the focus of the project team in 1999 to ensure that the level of compliance within the Company's information systems is not diminished by operational changes.

Operating Processes

Inventory and assessment phases were completed in 1998. Inventory is updated regularly for the development of new operating processes and the retirement of existing processes. Operating processes in which a failure could pose a risk to the environment or employee health and safety, or could produce a significant financial loss, have been assessed through internal testing. Approximately 15 per cent of tested systems failed. Remediation was 75 per cent complete at December 31, 1998, with the remainder expected to be completed by the end of the second quarter of 1999. In order to minimize operational disruption, this schedule was established based on the timing of plant turnarounds, existing capital projects and the availability of vendor personnel. Monitoring compliant operating processes is expected to be the focus of the project team in 1999 to ensure that the level of compliance within the Company's operating processes is not diminished by operational changes.

Business Associates

An inventory of third party suppliers and customers ("business associates") who were considered essential in supporting CanadianOxy's operations was completed in 1998. This inventory is updated regularly for the addition and deletion of business associates based on changes in operations. Fewer than 10 per cent of business associates were classified as high risk and their progress will be monitored through 1999. It is expected that the percentage of business associates classified as high risk will decline during 1999. Further assessments are expected to be completed to monitor progress of business associates' Year 2000 readiness. An evaluation of individual business associate Year 2000 readiness coupled with overall industry readiness is expected to identify where the Company may need to pursue alternative arrangements to prevent or minimize operational disruption. These alternative arrangements are being identified as contingency plans are prepared.

Contingency Plans

A contingency planning framework, developed in 1998, allows for the examination of potential failures at various levels, being: (1) failure of an individual information system, operating process or critical business associate, (2) failure at an aggregate operating level (e.g., individual facilities), and (3) failure at a corporate level. Existing emergency response plans are expected to be used as a foundation to develop Year 2000 specific contingency plans at all levels, with the contingency planning process expected to be completed by the end of the second quarter of 1999. Developed contingency plans will be updated as new information becomes available.

Total costs relating to Year 2000 compliance matters remain within CanadianOxy's initial $10 million estimated cost. This estimate does not include potential costs required to address Year 2000 non-compliance by the Company's business associates. Total costs since inception of the Company's remediation efforts are approximately $6 million, of which $1 million was capitalized and $5 million was expensed in the consolidated financial statements.

Given the nature of the risk, it is not possible to be certain that all Year 2000 issues affecting CanadianOxy will be fully resolved without a material adverse impact on operations, liquidity or financial condition. This is especially the case when considering the uncertainty of the level of preparedness of business associates. However, CanadianOxy believes that it has in place a comprehensive program that will minimize the overall impact that known Year 2000 issues may have on operations, liquidity and financial condition.

Outlook

As a result of asset dispositions in 1998, CanadianOxy expects its production to decrease approximately 10 per cent in 1999. Oil production in 1999 is expected to be approximately three per cent lower than 1998, while gas production is anticipated to be approximately one-third lower in 1999. Actual 1999 production will depend upon numerous factors including capital expenditures, drilling success and availability of transportation.

Capital expenditures in 1999 will ultimately be dependent on crude oil prices. At an assumed U.S. $13.00 price for WTI, capital expenditures of $440 million are planned for 1999 as compared to $950 million in 1998. Due to the numerous and complex factors influencing crude oil and natural gas prices, CanadianOxy is unable to predict with certainty the direction, magnitude or impact of future trends in prices. Capital expenditures will be

focused on development activities, while exploration capital will be generally restricted to committed projects and retention of future value. Development expenditures are budgeted primarily for projects in Yemen, Australia, Canada and the United States. Exploration expenditures are budgeted for Nigeria, Colombia, Yemen, Canada and the United States.

The Company expects to finance its capital program using cash generated from operating activities. If necessary, existing committed borrowing capacity can also be used to fund capital expenditures and other obligations as they become due.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report, including those appearing under the captions "Business and Properties" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," constitute "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act of 1995,* Section 21E of the United States *Securities Exchange Act of 1934,* as amended, and Section 27A of the United States *Securities Act of 1933,* as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, among others: market prices for oil and gas and chemicals products; the ability to produce and transport crude oil and natural gas to markets; the results of exploration and development drilling and related activities; foreign currency exchange rates; economic conditions in the countries and regions in which the Company carries on business; actions by governmental authorities including increases in taxes, changes in environmental and other regulations, and renegotiation of contracts and political uncertainty, including actions by insurgent groups or other conflict. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors, and management's course of action would depend upon its assessment of the future considering all information then available. In that regard, any statements as to future crude oil, natural gas or chemical production levels, cost recovery oil revenues and the Company's share of production from operations in Yemen, depletion rates, capital expenditures, sources of funding for its capital program, drilling of new wells, demand for chemical products, expenditures and allowances relating to environmental matters, costs of addressing Year 2000 matters, dates by which certain areas will be developed or will come onstream, cash flows, debt levels, restructuring or special charges, and changes in any of the foregoing are forward-looking statements, and there can be no assurance that the expectations conveyed by such forward-looking statements will in fact be realized.

Although the Company believes that the expectations conveyed by the forward-looking statements are reasonable based on information available to it on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity and achievements. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

1998 financials

Report of Management

The Management of Canadian Occidental Petroleum Ltd. ("CanadianOxy") is responsible for the integrity of its reported financial data. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements in accordance with generally accepted accounting principles in Canada. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures, and exercises its best judgement in order that such statements present fairly the consolidated financial position, results of operations and cash flows of CanadianOxy. The financial information contained elsewhere in this report has been reviewed to ensure consistency with that in the Consolidated Financial Statements.

In order to gather and control financial data, CanadianOxy has established accounting and reporting systems supported by internal controls and an internal audit program. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the records are reliable for preparing consolidated financial statements and other data, and maintaining accountability for assets.

VICTOR J. ZALESCHUK
President and
Chief Executive Officer

MARVIN F. ROMANOW
Senior Vice President, Finance and
Chief Financial Officer

February 12, 1999

Auditors' Report

TO THE SHAREHOLDERS OF CANADIAN OCCIDENTAL PETROLEUM LTD.:

We have audited the consolidated balance sheet of Canadian Occidental Petroleum Ltd. as at December 31, 1998 and 1997 and the consolidated statements of income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in accordance with generally accepted accounting principles in Canada.

Arthur Andersen LLP

Calgary, Alberta
February 12, 1999

ARTHUR ANDERSEN LLP
Chartered Accountants

Consolidated Statement of Income

for the three years ended December 31, 1998

(millions except per share data)	1998	1997	1996
Revenues			
Net Sales	$ 1,440	$ 1,681	$ 1,362
Gain on Disposition of Assets	135	12	18
Marketing, Interest and Other Income	75	60	9
	1,650	1,753	1,389
Costs and Expenses			
Cost of Sales	548	503	370
Selling, Administrative and Other	148	121	74
Depreciation, Depletion and Amortization	713	589	452
Exploration	187	148	119
Interest, Net (Note 8)	148	114	55
	1,744	1,475	1,070
Income (Loss) Before Income Taxes	(94)	278	319
Provision for Income Taxes (Note 13)	16	139	129
Net Income (Loss)	(110)	139	190
Dividends on Preferred Securities (Note 9)	(4)	–	–
Net Income (Loss) Attributable to Common Shareholders	$ (114)	$ 139	$ 190
Net Income (Loss) Per Common Share	$ (0.83)	$ 1.02	$ 1.40

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, 1998 and 1997

	1998	1997
(millions)		
ASSETS		
Current Assets		
Cash and Short-Term Investments	$ 47	$ 121
Accounts Receivable (Note 4)	526	462
Income Taxes Receivable	12	13
Inventories and Supplies (Note 5)	110	79
Prepaid Expenses	19	19
Total Current Assets	714	694
Property, Plant and Equipment (Note 6)	3,459	3,814
Deferred Charges and Other Assets	53	39
	$ 4,226	$ 4,547
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-Term Borrowings (Note 8)	$ 401	$ 45
Accounts Payable and Accrued Liabilities	585	587
Income Taxes Payable	17	16
Accrued Interest Payable	16	12
Dividends Payable	10	10
Total Current Liabilities	1,029	670
Long-Term Debt (Note 8)	1,378	2,167
Deferred Income Taxes	113	217
Dismantlement and Site Restoration Allowance	136	147
Other Deferred Credits and Liabilities	64	51
Minority Interest	47	45
Shareholders' Equity		
Preferred Securities (Note 9)	399	–
Common Shares, no Par Value (Note 9)		
Authorized: Unlimited		
Outstanding: 1998 - 137,373,275 shares;		
1997 - 136,610,426 shares	343	325
Contributed Surplus	14	14
Retained Earnings	651	813
Cumulative Foreign Currency Translation Adjustment	52	98
Total Shareholders' Equity	1,459	1,250
Contingencies (Notes 10 and 11)		
	$ 4,226	$ 4,547

1060

Approved on Behalf of the Board:

Director

John E Feick
Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

for the three years ended December 31, 1998

(millions)	1998	1997	1996
Operating Activities			
Net Income (Loss)	$ (110)	$ 139	$ 190
Charges and Credits to Income not Involving Cash (Note 14)	523	578	457
Exploration Expense	187	148	119
Changes in Non-Cash Working Capital (Note 14)	92	23	6
Other	4	(11)	(4)
	696	877	768
Financing Activities			
Proceeds from Long-Term Debt	1,269	2,353	495
Repayment of Long-Term Debt	(2,138)	(1,179)	(594)
Net Proceeds from Short-Term Borrowings	356	45	–
Dividends on Preferred Securities	(6)	–	–
Dividends on Common Shares	(41)	(41)	(41)
Issue of Preferred Securities, Net (Note 9)	369	–	–
Issue of Common Shares	18	11	20
Other (Note 14)	(7)	(11)	(3)
	(180)	1,178	(123)
Investing Activities			
Capital Expenditures			
Exploration, Development and Other	(894)	(885)	(546)
Proved Property Acquisitions	(56)	(20)	(86)
Acquisition (Note 3)	–	(1,680)	–
Proceeds on Disposition of Assets	533	471	40
Other (Note 14)	(175)	52	9
	(592)	(2,062)	(583)
Effect of Exchange Rate Changes on Cash	2	19	2
Increase (Decrease) in Cash	(74)	12	64
Cash - Beginning of Year	121	109	45
Cash - End of Year	$ 47	$ 121	$ 109

See accompanying notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

for the three years ended December 31, 1998

(millions)	Preferred Securities (Note 9)	Common Shares (Note 9)	Contributed Surplus	Retained Earnings	Cumulative Foreign Currency Translation Adjustment
December 31, 1995	$ –	$ 294	$ 14	$ 566	$ 56
Exercise of Stock Options	–	10	–	–	–
Issue of Common Shares	–	10	–	–	–
Net Income	–	–	–	190	–
Dividends on Common Shares	–	–	–	(41)	–
Translation Adjustment	–	–	–	–	24
December 31, 1996	–	314	14	715	80
Exercise of Stock Options	–	2	–	–	–
Issue of Common Shares	–	9	–	–	–
Net Income	–	–	–	139	–
Dividends on Common Shares	–	–	–	(41)	–
Translation Adjustment	–	–	–	–	18
December 31, 1997	–	325	14	813	98
Issue of Preferred Securities	399	–	–	–	–
Exercise of Stock Options	–	3	–	–	–
Issue of Common Shares	–	15	–	–	–
Loss	–	–	–	(110)	–
Dividends on Preferred Securities, Net of Income Taxes	–	–	–	(4)	–
Issue Costs of Preferred Securities, Net of Income Taxes	–	–	–	(7)	–
Dividends on Common Shares	–	–	–	(41)	–
Translation Adjustment	–	–	–	–	(46)
December 31, 1998	**$ 399**	**$ 343**	**$ 14**	**$ 651**	**$ 52**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(tabular amounts in millions except as otherwise noted)

1. ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated.

Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Occidental Petroleum Ltd. and subsidiary companies and partnerships in which it has a controlling interest ("CanadianOxy" or the "Company"). All subsidiary companies are wholly-owned. The consolidated chemicals partnerships are 85 per cent owned. All material intercompany accounts and transactions have been eliminated. Substantially all exploration, development and production activities related to oil and gas and alternate fuels are conducted jointly with others and, accordingly, the accounts reflect only CanadianOxy's proportionate interest in such activities.

Inventories and Supplies

Inventories and supplies are stated at the lower of cost or net realizable value. Cost is determined on the first-in first-out method or average basis.

Property, Plant and Equipment

CanadianOxy follows the successful efforts method of accounting for oil and gas exploration and development activities. Acquisition costs of resource properties, exploratory drilling costs and all development costs are capitalized. The cost of exploratory wells found to be dry and all other exploration costs are charged to operations.

The capitalized cost of resource properties and facilities, producing wells and the Syncrude plant are depleted or depreciated using the unit-of-production method over remaining proved reserves derived from estimates prepared or audited by independent engineers. The cost of other plant and equipment is capitalized and depreciated using the straight-line method based on the estimated useful lives of the assets which range principally from three to 25 years. Improvements that increase capacity or extend the useful lives of these assets are capitalized. Unproved properties are amortized at rates determined in accordance with experience. All property, plant and equipment is periodically evaluated and, if conditions warrant, an impairment provision is provided.

Future dismantlement and site restoration costs for resource properties, facilities, production platforms and pipelines, chemical manufacturing facilities and the Syncrude Project are provided using either their associated proved reserves or their estimated remaining lives. Costs are based on engineering estimates of the anticipated method and extent of site restoration in accordance with current legislation, industry practices and costs. The annual provision for dismantlement and site restoration is included in depreciation, depletion and amortization.

Carried Interest

Production generated from the Masila Block Development Project (the "Project") in Yemen is segregated by the terms of the Agreement for Petroleum Exploration and Production (the "Agreement") between the Government of Yemen (the "Government") and CanadianOxy and the other Masila Block participants. Production is divided into Cost Recovery Oil and Profit Oil. Cost Recovery Oil provides for the recovery of operating, exploration and development costs in accordance with a formula and is limited to a maximum of 40 per cent of production during each fiscal year. Costs not actually recovered in any year may be carried forward for recovery in future years, and are included in property, plant and equipment in the Consolidated Balance Sheet.

Profit Oil is that portion of production remaining after deducting Cost Recovery Oil. Profit Oil is deliverable to both the Government and the Masila Block participants on a sliding scale basis based on production rates. CanadianOxy's "Working Interest" in the Project is equivalent to the percentage of Profit Oil deliverable to it over the life of the Project and is accounted for using the successful efforts method of accounting.

Profit Oil which is attributable to the Government is considered to be the Government's "Deemed Interest". This includes an amount in respect of all Yemen income taxes payable by CanadianOxy and the other Masila Block participants under the laws of Yemen.

Under the terms of the Agreement, CanadianOxy and the other Masila Block participants fund the Government's share of exploration, development and operating costs. Cost Recovery Oil delivered to CanadianOxy includes a "Carried Interest" component from which CanadianOxy will recover the Government's share of exploration, development and operating costs incurred on the Government's behalf by CanadianOxy. Amounts received pertaining to the Government's Carried Interest are included as revenue and are offset by the actual recoveries representing firstly, the Government's share of the current year's operating costs and secondly, the Government's share of exploration and development costs. Recoveries of capitalized Carried Interest costs are shown as depreciation or depletion expense.

Production Overlifts and Underlifts
Crude oil and natural gas lifted and sold by CanadianOxy above or below its working interest share in resource properties results in production overlifts and underlifts. Revenues are recorded in accordance with the entitlement method under which overlifts are recorded as liabilities and underlifts are recorded as assets. Settlement will be in kind when the liftings are equalized or in cash when production ceases.

Income Taxes
The deferral method of tax allocation accounting is followed under which the income tax provision is based on the results of operations reported in the accounts. The difference between the income tax provision and taxes currently payable is reflected as deferred income taxes. Such deferred income taxes have arisen principally due to the differences in the timing of deductions taken for exploration, development and dismantlement and site restoration costs for income tax purposes and the related depreciation, depletion and amortization expense recorded in the financial statements.

Deferred foreign withholding taxes are not provided on the undistributed earnings of foreign incorporated subsidiaries as it is CanadianOxy's intention to invest such earnings indefinitely in foreign countries.

Net Income (Loss) per Common Share
Net income (loss) per common share is based on the weighted average number of common shares outstanding during each year and net income (loss) after deducting dividends on preferred securities, net of income taxes.

Foreign Currency Translation
The assets and liabilities of foreign operations considered financially and operationally independent are translated into Canadian dollars from their functional currencies using exchange rates at the balance sheet dates. Revenue and expense items are translated using the average rates of exchange throughout the year. Gains and losses resulting from this translation process are deferred and included in the cumulative foreign currency translation adjustment in shareholders' equity.

Transactions and monetary balances denominated in a currency other than a functional currency are translated into the functional currency using month-end exchange rates. Gains and losses arising from this translation process are included in income.

Foreign denominated long-term monetary liabilities of Canadian operations are translated using exchange rates at the balance sheet dates. The resulting unrealized translation gains and losses are deferred and amortized over the remaining lives of these long-term monetary liabilities. CanadianOxy has designated its United States dollar denominated net debt as a hedge against its net investment in United States dollar based self-sustaining foreign operations and, accordingly, gains and losses resulting from the translation of the net debt are deferred and included in the cumulative foreign currency translation adjustment in shareholders' equity. Deferred foreign exchange losses accumulated prior to designation were amortized over the remaining lives of the underlying liabilities.

Capitalized Interest
Interest is capitalized on qualifying assets until put into service, using either the interest rate on borrowings specifically associated with the asset or, if no such specific borrowings exist, the weighted average interest rate on all other borrowings.

Derivative Financial Instruments and Derivative Commodity Instruments
CanadianOxy utilizes derivative financial instruments and derivative commodity instruments (collectively "derivative instruments") in its management of exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices as described in Note 7.

Foreign exchange contracts are used to effectively convert long-term debt obligations from Canadian to United States dollars. The initial premium or discount and subsequent changes are included in the carrying amount of the long-term debt obligation and the related gains and losses are included in the cumulative foreign currency translation adjustment in shareholders' equity. Foreign exchange contracts are also used to effectively fix the exchange rate on future United States dollar denominated sales. Gains and losses are recognized in revenues when the related transaction occurs.

Interest rate swap agreements and exchange contracts are used to effectively fix interest rates on floating rate long-term debt obligations. Net differences between amounts receivable and payable are reflected in interest expense on an accrual basis.

Futures contracts, swaps and options are used to manage the price risk associated with crude oil and natural gas sales and marketing activities. When there is a high degree of correlation between derivative instruments and designated transactions, gains and losses are recognized in revenues when the designated transactions occur. If correlation ceases, and for other derivative financial instruments, changes in market value of the derivative instruments are recognized in revenues in the period of change.

Cash and Short-Term Investments
Cash and short-term investments include instruments with a maturity of three months or less when purchased.

Comparative Figures
Certain 1997 and 1996 amounts have been reclassified for comparative purposes.

2. AFFILIATES

Occidental Petroleum Corporation and its subsidiaries ("Occidental") own approximately 29 per cent of the common shares of CanadianOxy.

In the normal course of operations, CanadianOxy sells and purchases products and services to or from Occidental, all of which are at market prices. During 1998 and 1997, such transactions were not material and at December 31, 1998 and 1997, there were no material amounts owing to or due from Occidental.

3. ACQUISITION

Effective April 14, 1997, CanadianOxy acquired all of the issued and outstanding common shares of Wascana Energy Inc. ("Wascana"). The aggregate amount required to purchase all the common shares and to pay the related fees and expenses was approximately $1.7 billion. The acquisition was financed by long-term credit facilities.

The acquisition was recorded using the purchase method of accounting whereby the results of operations were included from April 15, 1997, and the assets acquired and liabilities assumed were recorded at their fair values. The allocation of the purchase price was as follows:

Current Assets (including cash of $42 million)	$ 256
Property, Plant and Equipment	2,091
Other Assets	10
Current Liabilities	(192)
Long-Term Debt	(393)
Dismantlement and Site Restoration Allowance	(20)
Other Deferred Credits and Liabilities	(30)
	$ 1,722

The following unaudited pro forma financial information combines the consolidated results of operations of CanadianOxy and Wascana as if the acquisition had occurred on January 1, 1997 and January 1, 1996, after giving effect to certain adjustments including increased depreciation, depletion and amortization to reflect the value assigned to Wascana's property, plant and equipment, increased interest expense relating to debt issued to fund the acquisition, and income tax effects. This pro forma financial information does not necessarily reflect the results of operations as they would have been if CanadianOxy had controlled Wascana during such periods and is not necessarily indicative of results which may be obtained in the future.

	1997	1996
Revenues	$ 1,882	$ 1,808
Net Income in Accordance with Canadian Principles	$ 104	$ 87
Net Income per Common Share in Accordance with Canadian Principles	$ 0.76	$ 0.64
Net Income in Accordance with United States Principles		
Before Extraordinary Item	$ 101	$ 69
After Extraordinary Item	$ 101	$ 73
Net Income per Common Share in Accordance with		
United States Principles		
Before Extraordinary Item	$ 0.74	$ 0.51
After Extraordinary Item	$ 0.74	$ 0.54

4. ACCOUNTS RECEIVABLE

	1998	1997
Trade	$ 307	$ 443
Non-Trade	222	20
	529	463
Allowance for Doubtful Accounts	(3)	(1)
	$ 526	$ 462

Non-trade receivables include $210 million from the sale of oil and gas assets in the United Kingdom. Sales proceeds were received in January 1999.

5. INVENTORIES AND SUPPLIES

	1998	1997
Finished Products	$ 12	$ 15
Work in Process	4	4
Field Supplies	94	60
	$ 110	$ 79

6. PROPERTY, PLANT AND EQUIPMENT

	1998			1997		
	Cost	Accumulated Depreciation, Depletion and Amortization	Net Book Value	Cost	Accumulated Depreciation, Depletion and Amortization	Net Book Value
Oil and Gas						
Yemen	$ 532	$ 357	$ 175	$ 460	$ 297	$ 163
Yemen Carried Interest Costs	889	796	93	762	606	156
Canada	2,423	669	1,754	2,478	412	2,066
United States	1,077	531	546	833	426	407
Other Countries	286	74	212	143	22	121
Marketing	124	19	105	123	8	115
North Sea	–	–	–	394	159	235
	5,331	2,446	2,885	5,193	1,930	3,263
Alternate Fuels	358	115	243	325	106	219
Chemicals	508	209	299	491	186	305
Corporate and Other	48	16	32	43	16	27
	$ 6,245	$ 2,786	$ 3,459	$ 6,052	$ 2,238	$ 3,814

During 1998, CanadianOxy entered into agreements to swap producing resource properties with third parties, with an assigned value of $26 million (1997 - $20 million).

Capitalized costs relating to unproved properties and projects which are under construction or development are not depreciated, depleted or amortized. Included in the above table are oil and gas assets amounting to $128 million (1997 - $330 million) which are not being depreciated, depleted or amortized.

Portions of CanadianOxy's oil and gas assets are located outside North America. These assets and the related operations are subject to the risk of actions by governmental authorities and insurgent groups. It is CanadianOxy's policy to conduct its business so as to minimize such risks.

7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The nature of CanadianOxy's operations and the issuance of long-term debt expose the Company to fluctuations in foreign currency exchange rates, interest rates and commodity prices. CanadianOxy manages these risks by operating in a manner intended to minimize its exposure to the extent practical, and through the periodic use of derivative instruments. The Finance Committee of the Board of Directors reviews the results of derivative activities and all outstanding positions on a regular basis.

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. The Company does not hold any financial instruments with significant off-balance sheet risk of accounting loss except as described below.

(a) Foreign currency rate risk management

A portion of CanadianOxy's operations are located outside Canada. The functional currency of these operations and related net assets is the United States dollar. CanadianOxy does not have any material exposure to highly inflationary foreign currencies. In addition, CanadianOxy is exposed to foreign currency fluctuations in its Canadian-based operations as crude oil and a portion of natural gas prices received are referenced to United States dollar denominated prices.

CanadianOxy manages its exposure to foreign currency fluctuations by operating in a manner which generally matches foreign denominated future cash requirements with similarly denominated cash sources. Net revenues from foreign denominated operations together with available borrowing facilities are used to fund similarly denominated capital expenditures and long-term debt repayments. In addition, derivative financial instruments are periodically used to effectively convert future cash flows from Canadian to United States dollars or vice versa. These activities provide an effective hedge thereby minimizing the Company's exposure to foreign currency fluctuations.

At December 31, 1998 and 1997, CanadianOxy held the following foreign denominated net investments, long-term debt and preferred securities:

(millions of dollars)	1998	1997
United States Dollar Denominated		
Net Investments in Foreign Operations	**U.S. $662**	U.S. $636
Long-Term Debt	**U.S. $412**	U.S. $617
Preferred Securities	**U.S. $259**	–
United Kingdom Pounds Sterling Denominated		
Net Investments in Foreign Operations	–	£75

At December 31, 1998, CanadianOxy held the following foreign currency related derivative financial instruments:

Foreign Exchange Contracts Related to Long-Term Debt

(millions of dollars)	Amount Receivable	Amount Payable	Maturity Date
Exchange Contract	Cdn. $50	U.S. $37	November 2006

This contract represents an obligation to exchange principal and interest amounts between CanadianOxy and the counterparty. Details regarding this contract and the obligation to which it relates are described in Note 8.

Foreign Exchange Contracts Related to Future Sales

(millions of dollars)	Maturity Date	
	1999	2000
Contract Amount to Sell	U.S. $72	U.S. $68
Weighted Average Contractual Exchange Rate (U.S.$/Cdn.$)	$0.7136	$0.7073

These contracts represent obligations to exchange United States dollars for Canadian dollars at fixed exchange rates.

(b) Interest rate risk management

CanadianOxy manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings, and the periodic use of derivative financial instruments.

At December 31, 1998, CanadianOxy had fixed the interest rates on 77 per cent (1997 - 36 per cent) of its long-term debt at an effective average rate of 7.1 per cent (1997 - 6.9 per cent) through fixed rate borrowings and the following derivative financial instruments:

(millions of dollars)	Principal Amount	Effective Rate	Maturity Date
Exchange Contract	U.S. $ 37	6.75%	November 2006
Interest Rate Swap Agreements	U.S. $100	6.75%	November 2007
Interest Rate Swap Agreement	Cdn. $ 50	6.16%	November 2007

The exchange contract represents an obligation to exchange principal and interest amounts between CanadianOxy and the counterparty. The interest rate swap agreements provide for the receipt or payment of the difference between floating and fixed rates of interest based on a notional principal amount. Details regarding these contracts and the obligations to which they relate are described in Note 8.

(c) Commodity price risk management

CanadianOxy generally sells its crude oil and natural gas under short-term market-based contracts. Occasionally, derivative financial instruments may be used to manage the price risk associated with crude oil and natural gas sales. During 1998 and 1997, CanadianOxy utilized various derivative financial instruments to effectively fix the prices and differentials on crude oil and natural gas sales, however, these did not have a significant impact on the results of operations. During 1996, no significant derivative financial instruments were utilized by CanadianOxy to manage commodity price risk. At December 31, 1998, CanadianOxy held derivative financial instruments which fixed the differentials on approximately one-half and one-quarter of expected heavy oil production in 1999 and 2000, respectively. At December 31, 1998, the fair value of these instruments was $(22) million (1997 - $nil).

CanadianOxy is involved in various crude oil and natural gas marketing activities intended to enhance its oil and gas operations through greater customer satisfaction and market diversification, economies of scale and improved

transportation access. The Company enters into contracts to purchase and sell crude oil and natural gas in order to gain control over larger quantities than is available from its proprietary production. This activity exposes the Company to commodity price risk between the time contracted volumes are purchased and sold. This risk is managed by generally matching contracted purchases and sales, and through the use of derivative instruments comprising futures, swaps and options traded on the NYMEX. Open positions may exist where not all contracted purchases and sales have been matched in order to take advantage of market differences. The extent of exposure under these activities is restricted to prescribed limits and is monitored by a daily value-at-risk calculation. During 1998, net revenue from these activities, including the related derivative instruments, was $28 million (1997 - $9 million) and at December 31, 1998, the value-at-risk was $8 million (1997 - $7 million).

Prior to the Wascana acquisition, CanadianOxy was involved in the marketing of third party crude oil through a 50 per cent interest in a partnership arrangement. The Company's share of net revenues from such marketing activities was not significant.

(d) Fair value of financial instruments, including derivative instruments

The fair value of recognized financial instruments at December 31, 1998 and 1997 approximates their carrying value. The fair value of unrecognized derivative instruments at December 31, 1998 was $(60) million (1997 - $(7) million). The carrying value of cash and short-term investments, amounts receivable and short-term obligations approximates their fair value because of the near-term maturity of those instruments. The estimated fair value of long-term debt and derivative instruments is based on public trading values where available, or where not available, on values for similarly traded instruments with similar features.

8. LONG-TERM DEBT AND SHORT-TERM BORROWINGS

	1998	1997
Unsecured Syndicated Term Credit Facilities (a)	$ 421	$ 1,516
Unsecured Five-Year Debentures, due 1998 (b)	–	101
Unsecured Retractable Debentures, due 1999 (c)	26	26
Unsecured Ten-Year Debentures, due 2001 (d)	75	75
Unsecured Five-Year Term Loan, due 2001 (e)	77	71
Unsecured Ten-Year Redeemable Debentures, due 2006 (f)	107	103
Unsecured Redeemable Medium Term Notes, due 2007 (g)	150	150
Unsecured Redeemable Medium Term Notes, due 2008 (g)	125	125
Unsecured Redeemable Notes, due 2028 (h)	307	–
Other (k)	90	–
	$ 1,378	$ 2,167

(a) Unsecured syndicated term credit facilities

During 1998, CanadianOxy maintained the following unsecured term credit facilities:

(i) a revolving facility in the amount of $1.2 billion of which $151 million is available until July 31, 2003 and the remainder is available until July 31, 2005. The availability date on the amount due in 2005 is extendible for two-year periods at the lenders' option commencing in July 2000. At December 31, 1998, $204 million (1997 - $489 million) and U.S. $125 million (1997 - U.S. $495 million) were outstanding under this facility. Interest is payable at a floating rate. During 1998, the weighted average interest rate was 5.7 per cent (1997 - 5.0 per cent). In November 1997, the Company entered into interest rate swap agreements wherein the effective rate of interest on borrowings of $50 million and U.S. $100 million was fixed at 6.16 and 6.75 per cent, respectively, until November 2007.

(ii) a bridge facility in the original amount of $600 million maturing December 31, 1999 with interest payable at a floating rate. The amount outstanding at December 31, 1997 of $240 million was repaid and cancelled in April 1998. The weighted average interest rate was 5.1 per cent during 1998 and 3.9 per cent during 1997.

(iii) a revolving facility in the amount of $500 million which matures July 31, 2005 with interest payable at a floating rate. At December 31, 1998, $nil (1997 - $80 million) was outstanding under this facility. The weighted average interest was 5.5 and 4.8 per cent during 1998 and 1997, respectively.

(iv) a revolving facility in the amount of $100 million which matures May 31, 2004 with interest payable at a floating rate. At December 31, 1998, $25 million (1997 - $nil) was outstanding under this facility. The weighted average interest rate was 5.5 per cent and 3.8 per cent during 1998 and 1997, respectively.

(v) a revolving facility in the amount of $75 million which matures January 31, 2004 with interest payable at a floating rate. At December 31, 1998, $nil (1997 - $nil) was outstanding under this facility. The weighted average interest rate was 5.5 and 3.3 per cent during 1998 and 1997, respectively.

(b) Unsecured five-year debentures, due 1998
During 1993, CanadianOxy issued $100 million of unsecured five-year debentures. Interest was payable semi-annually at a rate of 7.70 per cent. Subsequently, $50 million of this obligation was effectively converted through forward exchange contracts with a Canadian chartered bank to a U.S. $36 million liability bearing interest at an effective rate of 5.60 per cent. The debentures and forward exchange contracts were settled on maturity in May 1998.

(c) Unsecured retractable debentures, due 1999
At December 31, 1998 and 1997, unsecured retractable debentures in the amount of $26 million were outstanding (net of $28 million face value of debentures repurchased). Interest is payable at a rate of 6.625 per cent and the principal is to be repaid in 1999. CanadianOxy intends to refinance the obligation with existing long-term debt facilities and, accordingly, it has not been included in current liabilities at December 31, 1998.

(d) Unsecured ten-year debentures, due 2001
During 1991, CanadianOxy issued $75 million of unsecured ten-year debentures. Interest is payable semi-annually at a rate of 10.85 per cent and the principal is to be repaid in June 2001.

(e) Unsecured five-year term loan, due 2001
During 1996, CanadianOxy entered into a five-year U.S. $50 million unsecured term loan agreement with a Canadian chartered bank. Interest is payable at a floating rate and the principal is to be repaid in October 2001.

(f) Unsecured ten-year redeemable debentures, due 2006
During 1996, CanadianOxy issued $100 million of unsecured ten-year redeemable debentures. Interest is payable semi-annually at a rate of 6.85 per cent and the principal is to be repaid in November 2006. In December 1996, $50 million of this obligation was effectively converted through an interest rate and currency exchange contract with a Canadian chartered bank to a U.S. $37 million liability bearing interest at an effective rate of 6.75 per cent for the term of the debentures. The debentures are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a Government of Canada Bond having a term to maturity equal to the remaining term of the debentures plus 0.10 per cent.

(g) Unsecured redeemable medium term notes
During 1997, CanadianOxy filed a shelf prospectus with Canadian securities regulatory authorities to issue from time to time to June 1999 up to $600 million principal amount of unsecured redeemable medium term notes. The issue price, interest rate, maturity date and redemption price are determined at the time of issuance.

During July 1997, CanadianOxy issued $150 million principal amount of notes. Interest is payable semi-annually at a rate of 6.45 per cent and the principal is to be repaid in July 2007. The notes are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a Government of Canada Bond having a term to maturity equal to the remaining term of the notes plus 0.125 per cent.

During October 1997, CanadianOxy issued $125 million principal amount of notes. Interest is payable semi-annually at a rate of 6.30 per cent and the principal is to be repaid in June 2008. The notes are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a Government of Canada Bond having a term to maturity equal to the remaining term of the notes plus 0.125 per cent.

(h) Unsecured redeemable notes
During February 1998, CanadianOxy filed a shelf prospectus with Canadian and United States securities regulatory authorities to issue from time to time to February 2000 up to U.S. $500 million principal amount of unsecured redeemable debt securities. The issue price, interest rate, maturity date and redemption price are determined at the time of issuance.

During April 1998, CanadianOxy issued U.S. $200 million principal amount of notes. Interest is payable semi-annually at a rate of 7.40 per cent and the principal is to be repaid in May 2028. The notes are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a United States Treasury security having a term to maturity equal to the

remaining term of the notes plus 0.25 per cent. During February 1999, CanadianOxy issued U.S. $225 million principal amount of notes as described in Note 17.

(i) Repayment and interest

Required long-term debt repayments, before considering the intended refinancings in 1999, for the next five years are: 1999 - $26 million; 2000 - $nil; 2001 - $152 million; 2002 - $nil, and 2003 - $50 million. Interest expense on long-term debt was $139 million, $103 million and $46 million in 1998, 1997 and 1996, respectively.

(j) Debt covenants

The majority of debt instruments contain covenants pertaining to the Company's net worth, certain ratios and the ability to grant security. At December 31, 1998, all covenants have been met.

(k) Short-term borrowings

CanadianOxy has unsecured operating loan facilities of approximately $280 million. The Company also has an authorized commercial paper program of $500 million which is supported by unused lines of credit. Interest is payable at floating rates and the facilities are subject to periodic reviews.

At December 31, 1998, the Company had a $300 million bridge facility due January 1999 which was fully drawn. The amount was repaid in January 1999 with proceeds from the sale of oil and gas assets in the United Kingdom and existing long-term facilities. Accordingly, $90 million of the obligation has been included in long-term debt at December 31, 1998.

During 1998 and 1997, the weighted average interest rate on short-term borrowings was 5.2 and 3.6 per cent, respectively.

9. PREFERRED SECURITIES AND SHARE CAPITAL

(a) Preferred Securities

On October 30, 1998, CanadianOxy issued U.S. $259 million of unsecured junior subordinated debentures ("preferred securities"). Interest is payable quarterly at a rate of 9.75 per cent and the principal is to be repaid in October 2047. The preferred securities are redeemable, in whole or in part, on or after October 30, 2003 by the Company at par. CanadianOxy may defer, subject to certain conditions, up to 20 consecutive quarterly interest payments and may satisfy its interest, principal or redemption payments through the issuance of common shares. During February 1999, CanadianOxy issued U.S. $200 million of unsecured junior subordinated debentures as described in Note 17.

Since the Company has the unrestricted ability to settle the interest, principal and redemption payments through the issuance of common shares, the preferred securities are classified as equity. Accordingly, the principal amount is included in shareholders' equity in the Consolidated Balance Sheet. Interest payments, net of income taxes, are classified as dividends and charged directly to retained earnings. In addition, costs of $16 million to effectively fix a portion of the interest rate prior to issuance have been deferred and are being amortized over the life of the preferred securities and included in the dividend.

(b) Authorized capital

Authorized share capital consists of an unlimited number of common shares of no par value and an unlimited number of Class A preferred shares of no par value issuable in series.

(c) Issued common shares and dividends

	1998	1997	1996
(thousands of shares)			
Beginning of Year	**136,610**	136,155	135,020
Exercise of Stock Options	**190**	112	655
Issue of Common Shares for Cash	**573**	343	480
End of Year	**137,373**	136,610	136,155
Dividends per Common Share	**$ 0.30**	$ 0.30	$ 0.30

During 1998, CanadianOxy issued 197,175 common shares for cash consideration of $5 million pursuant to an employee flow-through share arrangement and issued 375,694 (1997 - 342,874; 1996 - 480,180) common shares for cash consideration of $10 million (1997 - $9 million; 1996 - $10 million) under a Dividend Reinvestment Plan. At December 31, 1998, there were 715,452 common shares reserved for issuance under this plan.

(d) Stock options

The following options to purchase common shares have been granted to directors, officers and employees. Under the stock option plan, options vest over four years and are exercisable on a cumulative basis over 10 years. At the time of grant, the exercise price is equal to the market price.

	Options	Weighted-Average Exercise Price Per Share
	(thousands)	
December 31, 1995	1,442	$ 15
Granted	416	$ 23
Exercised	(655)	$ 14
Forfeited	(53)	$ 17
December 31, 1996	1,150	$ 18
Granted	1,135	$ 26
Exercised	(112)	$ 16
Forfeited	(58)	$ 24
December 31, 1997	2,115	$ 22
Granted	**2,853**	$ 22
Exercised	**(190)**	$ 18
Forfeited	**(117)**	$ 24
December 31, 1998	**4,661**	$ 23
Options exercisable at end of year		
1996	511	$ 17
1997	847	$ 20
1998	**1,314**	$ 23

The outstanding options were granted at prices ranging from $10 to $38 per common share and have a weighted average remaining contractual life of nine years. At December 31, 1998, there were 4,599,470 common shares reserved for the granting of additional options.

10. CONTINGENCIES

There are a number of lawsuits and claims pending including income tax reassessments as described in Note 13, the ultimate results of which cannot be ascertained at this time. Costs are recorded as they are incurred or become determinable. Management is of the opinion that any amounts assessed against the Company would not have a material adverse effect upon its consolidated financial position or results of operations.

11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

CanadianOxy's operations depend on automated processes and information systems that are exposed to computer-related problems pertaining to the Year 2000 issue. The effects may be experienced before, on, or after January 1, 2000 and, if not appropriately resolved, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect a company's ability to conduct normal business operations.

Management believes that it has in place a comprehensive program of testing, remediation, external compliance and contingency planning to minimize the overall impact that known Year 2000 issues may have on operations, liquidity and financial condition. Management believes the estimated completion date of the Company's compliance efforts, remediation and contingency planning will be mid-1999. However, given the nature of the Year 2000 issue, there is no certainty that all aspects affecting the Company, including those related to the efforts of customers, suppliers, partners or other third parties, will be fully resolved.

12. EMPLOYEE PENSION PLANS

CanadianOxy maintains contributory and non-contributory defined benefit pension plans and defined contribution pension plans which together cover substantially all employees. The pension costs for the defined benefit plans are determined by independent actuarial valuations and are funded in accordance with federal and provincial government regulations by contributions to trust funds which are administered by an independent trustee. Assets of the defined benefit pension funds are invested in investment funds, consisting primarily of equities and fixed income bonds.

Net pension expense for the defined benefit pension plans has been determined as follows:

	1998	1997	1996
Cost of Benefits Earned by Employees During the Year	$ 5	$ 4	$ 3
Current Year's Interest Cost on Benefits Earned	7	6	6
Expected Return on Pension Plan Assets	(7)	(6)	(5)
Net Amortization and Deferral	1	1	1
Net Pension Expense	$ 6	$ 5	$ 5

The following table sets forth for the defined benefit plans reconciliations of the beginning and ending balances of the benefit obligation and the fair value of the plan assets, the funded status and the assumptions used in the determination of the projected benefit obligation and net pension expense.

	1998	1997
Change in Benefit Obligation		
Benefit Obligation at the Beginning of the Year	$ 96	$ 92
Service Cost	5	4
Interest Cost	7	6
Plan Participants' Contribution	2	2
Actuarial Loss	1	–
Benefits Paid	(6)	(8)
Plan Amendment	6	–
Benefit Obligation at Year End	$ 111	$ 96
Change in Fair Value of Plan Assets		
Fair Value of Plan Assets at Beginning of Year	$ 96	$ 86
Actual Return on Plan Assets	12	10
Employer's Contribution	6	6
Plan Participants' Contributions	2	2
Benefits Paid	(6)	(8)
Fair Value of Plan Assets at Year End	$ 110	$ 96
Funded Status	$ (1)	$ –
Unamortized Past Service Costs	12	7
Unamortized Actuarial Gains	(8)	(4)
Pensions Asset Recognized in the Consolidated Balance Sheet	$ 3	$ 3
Assumptions		
Discount Rate	7.0%	7.0%
Long-Term Rate of Employee Compensation Increase	4.5%	4.5%
Long-Term Annual Rate of Return on Plan Assets	7.0%	7.0%

The Company also has non-contributory employee benefit plans which provide supplemental benefits to the extent that the benefits under the defined benefit pension plans are limited by statutory guidelines. The plans provide benefits based on length of service and final average earnings.

During 1998, pension expense for the Company's defined contribution plan was $2 million for 1998 (1997 - $2 million; 1996 - $nil).

Effective January 1, 1999, employees may choose to participate in either the defined benefit plans or the defined contribution plans. The impact of these changes on the defined benefit pension plan obligation is not determinable at this time. The changes are not expected to have a material impact on the Company's consolidated financial position or results of operations.

13. INCOME TAXES

Income (loss) before income taxes generated from Canadian and foreign operations is as follows:

	1998	1997	1996
Canadian	$ (245)	$ (56)	$ 28
Foreign	151	334	291
	$ (94)	$ 278	$ 319

The Canadian and foreign components of the provision for (recovery of) income taxes based on the jurisdiction in which income is taxed are as follows:

	1998	1997	1996
Current			
Canadian	$ 7	$ (1)	$ 2
Foreign	78	123	117
	85	122	119
Deferred			
Canadian	(70)	(4)	1
Foreign	1	21	9
	(69)	17	10
Total			
Canadian	(63)	(5)	3
Foreign	79	144	126
Provision for Income Taxes	$ 16	$ 139	$ 129

Foreign is principally comprised of Yemen, the United States and the United Kingdom prior to its disposition.

The provision for income taxes in the Consolidated Statement of Income varies from the provision for income taxes calculated at the Canadian statutory tax rate. The following table reconciles the main differences:

	1998	1997	1996
Income (Loss) Before Income Taxes	$ (94)	$ 278	$ 319
Provision for (Recovery of) Income Taxes Computed at the Canadian Statutory Rate	$ (42)	$ 124	$ 142
Add (Deduct) the Tax Effect of:			
Royalties, Rentals and Similar Payments to Provincial Governments	34	41	14
Resource Allowance and Provincial Tax Rebates	(24)	(39)	(16)
Lower Tax Rates on Foreign Operations	(30)	(22)	(18)
Permanent Differences Between Accounting and Tax Bases of Assets and Liabilities	69	25	1
Large Corporation Tax	7	7	2
Other	2	3	4
Provision for Income Taxes	$ 16	$ 139	$ 129

The provision for deferred income taxes arises from timing differences in the recognition of revenue and expense items for income tax and financial statement purposes. The income tax effects of these differences are as follows:

	1998	1997	1996
Depreciable Property, Plant and Equipment	$ 22	$ (8)	$ 8
Dismantlement and Site Restoration Expenditures	(9)	(7)	(4)
Deferred Income	22	37	(2)
Capitalized Interest	(4)	(5)	(5)
Operating Losses	(107)	(8)	10
Foreign Taxes	7	8	4
Other	–	–	(1)
Provision for (Recovery of) Deferred Income Taxes	$ (69)	$ 17	$ 10

CanadianOxy's income tax filings are subject to audit by taxation authorities. There are various audits in progress and items under review, some of which may increase the tax liability of the Company. The ultimate results of these items cannot be ascertained at this time. Management is of the opinion that it has adequately provided for income taxes based on all information currently available.

At the time of acquisition, Wascana had outstanding taxation issues in dispute relating to prior taxation years. Wascana disagreed with issues raised and has filed Notices of Objection in respect of these issues. The value of the tax pools acquired at the time of acquisition reflects management's evaluation of the potential impact of these issues.

14. CASH FLOWS

(a) Charges and credits to income not involving cash

	1998	1997	1996
Depreciation, Depletion and Amortization	$ 713	$ 589	$ 452
Gain on Disposition of Assets	(135)	(12)	(18)
Deferred Income Taxes	(69)	17	10
Amortization of Deferred Foreign Exchange Losses	–	–	15
Minority Interest in Net Income	6	6	6
Amortization of Deferred Credits	–	(27)	–
Other	8	5	(8)
	$ 523	$ 578	$ 457

(b) Changes in non-cash working capital

Changes in non-cash working capital items increased (decreased) cash as follows:

	1998	1997	1996
Accounts Receivable	$ (64)	$ (13)	$ (37)
Income Taxes Receivable	1	2	12
Inventories and Supplies	(31)	5	(9)
Prepaid Expenses	–	(3)	2
Accounts Payable and Accrued Liabilities	(2)	77	33
Income Taxes Payable	1	9	7
Accrued Interest Payable	4	1	1
Dividends Payable	–	–	2
	$ (91)	78	11
Effect of Foreign Exchange Rate Changes on Non-Cash Working Capital	(3)	(1)	2
	$ (94)	$ 77	$ 13

These changes relate to the following activities:

	1998	1997	1996
Operating Activities	$ 92	$ 23	$ 6
Investing Activities	(186)	54	6
Financing Activities	–	–	1
	$ (94)	$ 77	$ 13

Amounts relating to Investing and Financing activities are included in the respective "other" classifications in the Consolidated Statement of Cash Flows.

(c) Other cash flow information

	1998	1997	1996
Interest Paid	$ 145	$ 112	$ 55
Income Taxes Paid, Net	$ 81	$ 112	$ 100

15. OPERATING SEGMENTS AND RELATED INFORMATION

CanadianOxy is involved in activities relating to oil and gas, alternate fuels and chemicals in various geographic locations.

The oil and gas activities involve exploration for and the development and production of crude oil, natural gas and related products around the world. Operations are generally managed on a country-by-country basis reflecting differences in the regulatory environments and risk factors associated with a country. Principal operations are located onshore in Yemen and Canada, and in the offshore waters of the United States Gulf of Mexico. Other operations are located primarily in Nigeria, Ecuador, Australia, Indonesia and Colombia. The Company's oil and gas assets located in the United Kingdom sector of the North Sea were sold effective December 31, 1998. Oil and gas activities also include the transportation and marketing of proprietary and third party purchased crude oil and natural gas.

The alternate fuels activities involve the development and production of synthetic crude oil from oil sands in northern Alberta in Canada.

The chemicals operations involve the manufacture, marketing and distribution of industrial chemicals, principally sodium chlorate, chlorine and caustic soda. Sodium chlorate is produced at five facilities located in Canada and one facility in the United States. Chlorine and caustic soda are produced at a chlor-alkali facility in Canada.

The accounting policies of the operating segments are the same as those described in Note 1. Net income of operating segments excludes interest income, interest expense, unallocated corporate expenses, foreign exchange gains and losses, and amortization of the gain on termination of interest rate swap agreements. Identifiable assets are those used in the operations of the segments.

Notes to the following tables:

(a) Includes results of operations from producing activities in Ecuador and Nigeria.

(b) Includes results of operations from sales of asphalt and related byproducts in Canada.

(c) Comprised of sales in Canada of $109 million and in the United States of $149 million (1997 - Canada $108 million and United States $152 million; 1996 - Canada $116 million and United States $139 million). In addition, the Canadian operations sell finished products to the United States operations at market prices less an amount for selling costs.

(d) Sales and cost of sales associated with the purchase and sale of crude oil and natural gas are recorded on a net basis and included in marketing, interest and other income in the Consolidated Statement of Income. Sales and cost of sales were $3,318 million and $3,284 million (1997 - $2,196 and $2,179), respectively. Net sales in Canada and Alternate Fuels reflect sales to the Marketing segment. Approximately 11 per cent (1997 - 21 per cent) and four per cent (1997 - six per cent) of Marketing's cost of sales relate to purchase of products from Canada and Alternate Fuels segments, respectively.

(e) Includes an impairment charge for assets in Nigeria of $40 million.

(f) Includes exploration activities primarily in Nigeria, Indonesia, Australia and Colombia.

(g) The recovery of (provision for) income taxes for foreign geographic operating locations is based on in-country taxes on foreign income. For oil and gas locations with no operating activities, the provision is based on the tax jurisdiction of the entity undertaking the activity.

(h) Includes the impact of the Wascana acquisition commencing April 15, 1997.

(i) Includes results of operations from producing activities in Ecuador, and Venezuela prior to its disposition in December 1997.

(j) Includes exploration activities primarily in Indonesia, Australia, Colombia and Vietnam.

(k) Includes results of operations from producing activities in Ecuador, and Peru prior to expiration of the contract in July 1996.

(l) Includes exploration activities primarily in Nigeria, Indonesia and Colombia.

(m) Sales made in Canada from all segments were $502 million (1997 - $627 million; 1996 - $342 million) and property, plant and equipment located in Canada was $2,350 million at December 31, 1998 (1997 - $2,648 million; 1996 - $787 million).

1998 OPERATING AND GEOGRAPHIC SEGMENTS

	Oil and Gas						Alternate Fuels	Chemicals	Corporate and Other Items[b]	Total
	Yemen	Canada	United States	North Sea	Other Countries[a]	Marketing				
Net Sales	$ 399	$ 367	$ 183	$ 64	$ 21	$ –	$ 115	$ 258[c]	$ 33	$ 1,440
Gain (Loss) on Disposition of Assets	–	31	1	101	–	(1)	3	–	–	135
Marketing, Interest and Other Income	5	–	8	10	1	34[d]	–	3	14	75
Total Revenues	404	398	192	175	22	33	118	261	47	1,650
Cost of Sales	49	151	49	21	10	–	75	166	27	548
Selling, Administrative and Other	4	33	7	3	17	9	3	17	55	148
Depreciation, Depletion and Amortization	175	277	112	38	54[e]	11	13	24	9	713
Exploration	22	36	24	1	104[f]	–	–	–	–	187
Interest, Net	–	–	–	–	–	–	–	–	148	148
Income (Loss) Before Income Taxes	154	(99)	–	112	(163)	13	27	54	(192)	(94)
Recovery of (Provision for) Income Taxes [g]	(63)	(33)	–	(10)	52	(5)	(9)	(23)	75	(16)
Net Income (Loss)	$ 91	$ (132)	$ –	$ 102	$ (111)	$ 8	$ 18	$ 31	$ (117)	$ (110)
Identifiable Assets	$ 355	$ 1,882	$ 587	$ –	$ 507	$ 183	$ 255	$ 339	$ 118	$ 4,226
Additions to Property, Plant and Equipment										
Development and Other Expenditures	$ 85	$ 229	$ 78	$ 4	$ 93	$ 6	$ 36	$ 17	$ 14	$ 562
Exploration Expenditures	39	51	107	2	133	–	–	–	–	332
Proved Property Acquisitions	–	11	45	–	–	–	–	–	–	56
Capital Additions	$ 124	$ 291	$ 230	$ 6	$ 226	$ 6	$ 36	$ 17	$ 14	$ 950
Property, Plant and Equipment										
Cost	$ 1,421	$ 2,423	$ 1,077	$ –	$ 286	$ 124	$ 358	$ 508	$ 48	$ 6,245
Accumulated Depreciation, Depletion and Amortization	1,153	669	531	–	74	19	115	209	16	2,786
Net Book Value	$ 268	$ 1,754	$ 546	$ –	$ 212	$ 105	$ 243	$ 299	$ 32	$ 3,459

1997 OPERATING AND GEOGRAPHIC SEGMENTS

	Oil and Gas						Alternate Fuels	Chemicals	Corporate and Other Items[b]	Total
	Yemen	Canada[h]	United States	North Sea	Other Countries[i]	Marketing				
Net Sales	$ 497	$ 449	$ 212	$ 69	$ 24	$ –	$ 140	$ 260[c]	$ 30	$ 1,681
Gain on Disposition of Assets	–	11	1	–	–	–	–	–	–	12
Marketing, Interest and Other Income	–	–	14	5	3	17[d]	–	3	18	60
Total Revenues	497	460	227	74	27	17	140	263	48	1,753
Cost of Sales	41	142	42	15	10	–	75	160	18	503
Selling, Administrative and Other	1	34	8	3	17	5	3	21	29	121
Depreciation, Depletion and Amortization	176	221	91	33	15	8	13	26	6	589
Exploration	–	46	26	2	74[j]	–	–	–	–	148
Interest, Net	–	–	–	–	–	–	–	–	114	114
Income (Loss) Before Income Taxes	279	17	60	21	(89)	4	49	56	(119)	278
Recovery of (Provision for) Income Taxes [g]	(110)	(41)	(21)	(9)	30	(1)	(16)	(23)	52	(139)
Net Income (Loss)	$ 169	$ (24)	$ 39	$ 12	$ (59)	$ 3	$ 33	$ 33	$ (67)	$ 139
Identifiable Assets	$ 413	$ 2,146	$ 472	$ 250	$ 198	$ 358	$ 234	$ 375	$ 101	$ 4,547
Additions to Property, Plant and Equipment										
Development and Other Expenditures	$ 49	$ 327	$ 109	$ 19	$ 68	$ 3	$ 26	$ 18	$ 9	$ 628
Exploration Expenditures	–	101	45	11	100	–	–	–	–	257
Proved Property Acquisitions	–	8	12	–	–	–	–	–	–	20
Capital Additions	$ 49	$ 436	$ 166	$ 30	$ 168	$ 3	$ 26	$ 18	$ 9	$ 905
Property, Plant and Equipment										
Cost	$ 1,222	$ 2,478	$ 833	$ 394	$ 143	$ 123	$ 325	$ 491	$ 43	$ 6,052
Accumulated Depreciation, Depletion and Amortization	903	412	426	159	22	8	106	186	16	2,238
Net Book Value	$ 319	$ 2,066	$ 407	$ 235	$ 121	$ 115	$ 219	$ 305	$ 27	$ 3,814

1996 OPERATING AND GEOGRAPHIC SEGMENTS

	Oil and Gas					Alternate Fuels	Chemicals	Corporate and Other Items[b]	Total
	Yemen	Canada	United States	North Sea	Other Countries[k]				
Net Sales	$ 522	$ 163	$ 214	$ 60	$ 21	$ 127	$ 255[c]	$ –	$ 1,362
Gain on Disposition of Assets	–	11	6	–	1	–	–	–	18
Interest and Other Income	–	–	2	2	–	–	2	3	9
Total Revenues	522	174	222	62	22	127	257	3	1,389
Cost of Sales	38	46	37	13	10	73	153	–	370
Selling, Administrative and Other	4	11	9	1	9	3	14	23	74
Depreciation, Depletion and Amortization	212	64	93	28	15	12	24	4	452
Exploration	–	24	27	25	43[l]	–	–	–	119
Interest, Net	–	–	–	–	–	–	–	55	55
Income (Loss) Before Income Taxes	268	29	56	(5)	(55)	39	66	(79)	319
Recovery of (Provision for) Income Taxes[g]	(107)	(18)	(20)	–	17	(12)	(27)	38	(129)
Net Income (Loss)	$ 161	$ 11	$ 36	$ (5)	$ (38)	$ 27	$ 39	$ (41)	$ 190
Identifiable Assets	$ 537	$ 421	$ 451	$ 256	$ 110	$ 221	$ 377	$ 31	$ 2,404
Additions to Property, Plant and Equipment									
Development and Other Expenditures	$ 156	$ 78	$ 60	$ 9	$ 21	$ 15	$ 36	$ 4	$ 379
Exploration Expenditures	–	55	35	25	51	1	–	–	167
Proved Property Acquisitions	–	20	66	–	–	–	–	–	86
Capital Additions	$ 156	$ 153	$ 161	$ 34	$ 72	$ 16	$ 36	$ 4	$ 632
Property, Plant and Equipment									
Cost	$ 1,123	$ 664	$ 716	$ 366	$ 96	$ 303	$ 473	$ 23	$ 3,764
Accumulated Depreciation, Depletion and Amortization	692	325	363	124	34	97	162	12	1,809
Net Book Value	$ 431	$ 339	$ 353	$ 242	$ 62	$ 206	$ 311	$ 11	$ 1,955

16. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant differences from United States principles are as follows:

(a) In accordance with U.S. principles, the preferred securities are classified as long-term debt rather than shareholders' equity. Accordingly, the pre-tax dividends are included in interest expense and the related income tax is included in the provision for income taxes in the Consolidated Statement of Income and related pre-tax issue costs are included in deferred charges in the Consolidated Balance Sheet.

(b) In accordance with U.S. principles, exchange gains and losses arising on translation of long-term monetary liabilities, unless designated as a hedge, are included in income currently instead of deferred and amortized over the lives of such long-term liabilities.

(c) In accordance with U.S. principles, deferred income taxes are recognized, at enacted rates, to reflect the future effects of tax carry forwards and temporary differences between the tax bases of assets and liabilities and their financial reporting amounts. In addition, assets and liabilities related to purchased businesses are restated to eliminate the use of net of tax accounting for such assets and liabilities, resulting in higher carrying values for assets and deferred income taxes.

The impact of these differences on the consolidated financial statements is as follows:

Consolidated Statement of Income

	1998	1997	1996
Net Income (Loss) as Reported in Accordance with Canadian Principles	$ (110)	$ 139	$ 190
(a) Dividends on Preferred Securities	(6)	–	–
Less: Associated Deferred Income Taxes	2	–	–
(b) Foreign Currency Translation	–	–	15
Less: Associated Deferred Income Taxes	–	–	(6)
(c) Accounting for Income Taxes			
Net Sales	1	12	–
Depreciation Expense	(71)	(44)	(4)
Deferred Income Taxes	69	30	4
Net Income (Loss) in Accordance with U.S. Principles	$ (115)	$ 137	$ 199
Net Income (Loss) per Common Share in Accordance with U.S. Principles	$ (0.84)	$ 1.00	$ 1.46
Net Income (Loss) per Fully Diluted Common Share in Accordance with U.S. Principles	$ (0.84)	$ 1.00	$ 1.46

Consolidated Statement of Comprehensive Income

In accordance with U.S. principles, exchange gains and losses arising from the translation of the Company's net investment in self-sustaining foreign operations and long-term monetary liabilities are included in comprehensive income which is added to net income in determining total comprehensive income. Cumulative amounts are included in accumulated other comprehensive income in the Consolidated Balance Sheet. In accordance with Canadian principles, such amounts are included in the cumulative foreign currency translation adjustment in shareholders' equity in the Consolidated Balance Sheet. During 1998, the foreign currency translation adjustment, net of deferred income taxes, was $(46) million (1997 - $18 million; 1996 - $24 million) and total comprehensive income (loss) was $(161) million (1997 - $155 million; 1996 - $223 million).

Consolidated Balance Sheet

	1998		1997	
	Canadian Principles	U.S. Principles	Canadian Principles	U.S. Principles
Property, Plant and Equipment, Net	$ 3,459	$ 3,858	$ 3,814	$ 4,302
Deferred Charges and Other Assets	$ 53	$ 66	$ 39	$ 39
Deferred Income Tax Assets	$ –	$ 387	$ –	$ 147
Long-Term Debt	$ 1,378	$ 1,777	$ 2,167	$ 2,167
Deferred Income Tax Liabilities	$ 113	$ 898	$ 217	$ 844
Preferred Securities	$ 399	$ –	$ –	$ –
Retained Earnings	$ 651	$ 665	$ 813	$ 821
Cumulative Foreign Currency Translation Adjustment	$ 52	$ –	$ 98	$ –
Accumulated Other Comprehensive Income	$ –	$ 52	$ –	$ 98

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Consolidated Statement of Cash Flows

In accordance with U.S. principles, geological and geophysical costs in the amount of $45 million (1997 - $45 million; 1996 - $28 million) that were included in exploration expense would be reported in operating activities as opposed to investing activities.

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1074

Additional Disclosures

(a) Temporary differences which give rise to deferred income tax assets and liabilities under U.S. principles at December 31, 1998 and 1997 are as follows:

	Deferred Tax Assets		Deferred Tax Liabilities	
	1998	1997	1998	1997
Property, Plant and Equipment	$ 111	$ 28	$ 711	$ 719
Dismantlement and Site Restoration Allowance	68	59	–	–
Loss Carry Forward	201	50	–	–
Deferred Income	–	–	164	117
Foreign Exchange	–	–	14	8
Recoverable Taxes	42	44	–	–
Other	5	5	9	–
	427	186	898	844
Valuation Allowance	(40)	(39)	–	–
	$ 387	$ 147	$ 898	$ 844

At December 31, 1998, the Company had available unused tax loss carry forwards totalling $350 million (1997 - $157 million) which expire at various times to 2005.

(b) The Company provides stock-based compensation in the form of stock options to directors, officers and employees. At the time of grant, the exercise price is equal to the market price and, accordingly, no compensation expense is recognized under the Company's accounting policies. Under U.S. principles, a compensation cost is measured at the grant date in accordance with a fair value based method utilizing an option-pricing model. Companies electing not to recognize the compensation cost determined under the fair value based method must make pro forma disclosures of net income and net income per share as if that method of accounting had been applied. Had CanadianOxy applied the fair value based method, net income (loss) in accordance with U.S. principles would have been $(120) million (1997 - $134 million; 1996 - $198 million) and net income (loss) per common share would have been $(0.87) (1997 - $0.98; 1996 - $1.46).

(c) The Company provides certain post-employment benefits other than pensions to its employees. Such future costs are fully accrued as deferred compensation earned during the period that employees render service, however, no funding of these future obligations is provided. Future liabilities are not material to the ongoing operations of the Company.

(d) The Company holds certain debt securities which would be classified as "available for sale securities" under U.S. principles and which would be revalued to their current market value with the unrealized gains and losses being reported in other comprehensive income. No material gains or losses were unrecorded at December 31, 1998 and 1997.

Recent Developments in U.S. Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities". The statement requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The recognition of the gains or losses depends on the intended use of the derivative instrument. The standard must be adopted on or before the end of the first quarter of 2000. The impact on the Company's financial statements has not been determined.

17. FINANCINGS SUBSEQUENT TO YEAR END

In February 1999, CanadianOxy issued U.S. $225 million principal amount of senior unsecured redeemable debt securities under its shelf prospectus as described in Note 8. Interest is payable semi-annually at a rate of 7.125 per cent and the principal is to be repaid in February 2004. The notes are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a United States Treasury security having a term to maturity equal to the remaining term of the notes.

In February 1999, CanadianOxy issued U.S. $200 million of unsecured junior subordinated debentures ("preferred securities"). Interest is payable quarterly at a rate of 9.375 per cent and the principal is to be repaid in March 2048. The preferred securities are redeemable, in whole or in part, on or after February 9, 2004 by the Company at par. CanadianOxy may defer, subject to certain conditions, up to 20 consecutive quarterly interest payments and may satisfy its interest, principal or redemption payments through the issuance of common shares.

Net proceeds from the issuances were applied to the Company's unsecured syndicated term credit facilities.

Supplementary Financial Information (unaudited)

QUARTERLY FINANCIAL DATA IN ACCORDANCE WITH CANADIAN AND U.S. GAAP

Summarized quarterly financial data for 1998 and 1997 is as follows:

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	1998	1997	**1998**	1997	**1998**	1997	**1998**	1997
(millions except per share data)								
Net Sales	**$ 355**	$ 363	**$ 361**	$ 398	**$ 354**	$ 455	**$ 370**	$ 465
Operating Profit (Loss)								
Oil and Gas [1] [2] [3] [4]	**$ (6)**	$ 104	**$ (2)**	$ 61	**$ 1**	$ 76	**$ 24**	$ 51
Alternate Fuels [5]	**(1)**	13	**12**	2	**9**	16	**7**	18
Chemicals [6]	**15**	15	**10**	16	**15**	16	**14**	9
	8	132	**20**	79	**25**	108	**45**	78
Interest and Other Corporate Items [1] [7]	**41**	16	**47**	28	**39**	34	**65**	41
Income Tax Expense (Recovery) [1]	**(29)**	43	**(12)**	31	**5**	43	**52**	22
Net Income (Loss) in Accordance with Canadian GAAP	**(4)**	73	**(15)**	20	**(19)**	31	**(72)**	15
U.S. GAAP Adjustment	**–**	–	**–**	–	**–**	(1)	**(5)**	(1)
Net Income (Loss) in Accordance with U.S. GAAP	**$ (4)**	$ 73	**$ (15)**	$ 20	**$ (19)**	$ 30	**$ (77)**	$ 14
Per Common Share:								
Net Income (Loss) (Canadian GAAP)	**$ (0.03)**	$ 0.53	**$ (0.11)**	$ 0.15	**$ (0.14)**	$ 0.23	**$ (0.55)**	$ 0.11
Net Income (Loss) (U.S. GAAP)	**$ (0.03)**	$ 0.53	**$ (0.11)**	$ 0.15	**$ (0.14)**	$ 0.22	**$ (0.56)**	$ 0.10
Dividends Declared [8] [9]	**$0.075**	$0.075	**$0.075**	$0.075	**$0.075**	$0.075	**$0.075**	$0.075
Common Share Prices:								
The Toronto Stock Exchange								
High	**$32.45**	$27.00	**$32.60**	$32.45	**$32.20**	$37.40	**$26.90**	$40.80
Low	**$25.00**	$22.00	**$27.80**	$25.05	**$18.00**	$32.50	**$15.25**	$30.55
American Stock Exchange								
High (U.S.$)	**$22.81**	$19.75	**$22.68**	$23.50	**$21.81**	$27.31	**$17.25**	$29.75
Low (U.S.$)	**$17.50**	$15.88	**$19.50**	$18.00	**$11.69**	$22.38	**$ 9.88**	$21.50

Notes:

(1) Reflects the impact of the Wascana acquisition commencing April 15, 1997.

(2) Gains (losses) of $14 million, $5 million, $17 million and $(2) million were recorded on the disposition of Canadian resource properties during the first, second, third and fourth quarters of 1998, respectively. A gain of $101 million was recorded on the disposition of the Company's North Sea properties in the fourth quarter of 1998.

(3) Gains (losses) of $1 million, $18 million and $(8) million were recorded on the disposition of Canadian resource properties during the first, second and fourth quarters of 1997, respectively.

(4) Includes a $40 million impairment charge for assets in Nigeria in the fourth quarter of 1998.

(5) The annual plant turnaround occurred in the first quarter in 1998 and second quarter in 1997.

(6) Reflects a $6 million write-off of a receivable during the fourth quarter of 1997.

(7) Includes $20 million for employee termination costs in the fourth quarter of 1998.

(8) In February 1999, the Board of Directors declared a regular quarterly dividend of $0.075 per common share, payable April 1, 1999 to shareholders of record on March 10, 1999.

(9) The Income Tax Act of Canada requires that the Company deduct a withholding tax from all dividends remitted to non-residents. In accordance with the Canada-U.S. Tax Treaty, the withholding tax is 15 per cent on dividends remitted by the Company to residents of the United States, except in the case of an affiliated company where the withholding tax is 10 per cent.

(10) At December 31, 1998, there were 1,527 registered holders of common shares and 137,373,275 common shares outstanding.

Oil and Gas Producing Activities

The following oil and gas information is provided in accordance with the United States Statement of Financial Accounting Standards Number 69 "Disclosures about Oil and Gas Producing Activities".

A. RESERVE QUANTITY INFORMATION

Reserves of oil include condensate and natural gas liquids. Conventional crude oil and natural gas reserve estimates are determined through analysis of geological and engineering data which has demonstrated with reasonable certainty that they are recoverable from known oil and gas fields under economic and operating conditions at December 31 of each year. The calculation of reserves for synthetic crude oil for the Syncrude Project is based on CanadianOxy's participating interest in the production permit.

The net proved reserves of crude oil and natural gas are determined by deducting the mineral owners' and/or governments' royalty share and are calculated using currently enacted royalty regulations.

The Syncrude net profits interest payment to the Province of Alberta is based on "deemed net profits", therefore, estimates of net reserves entail assumptions as to future crude oil prices and plant operating costs. Reserves data do not include the reserves contained in the oil sands other than those attributable to CanadianOxy's share in the Syncrude Project.

Reserves set forth are CanadianOxy's net reserves, after royalties, and are derived from estimates prepared or audited by independent engineers. Oil reserves are in millions of barrels and natural gas in billions of cubic feet.

	Total			Yemen[1]	Canada		United States		North Sea	Other Countries[2]
	Oil	Gas	Synthetic Crude Oil	Oil	Oil	Gas	Oil	Gas	Gas	Oil
Proved Developed and Undeveloped Reserves:										
December 31, 1995	193	525	160	132	25	274	17	120	131	19
Revisions of Previous Estimates	24	(4)	–	12	12	17	4	(4)	(17)	(4)
Purchases of Reserves in Place [3]	1	59	–	–	1	14	–	45	–	–
Sales of Reserves in Place [4]	(2)	(28)	–	–	(2)	(24)	–	(4)	–	–
Extensions and Discoveries	4	51	–	–	4	26	–	25	–	–
Production	(43)	(83)	(4)	(34)	(4)	(46)	(4)	(24)	(13)	(1)
December 31, 1996	177	520	156	110	36	261	17	158	101	14
Revisions of Previous Estimates	65	(112)	–	57	3	(116)	1	4	–	4
Purchases of Reserves in Place [5]	142	546	–	–	141	545	1	1	–	–
Sales of Reserves in Place [6]	(42)	(71)	–	–	(37)	(66)	(1)	(5)	–	(4)
Extensions and Discoveries	50	55	–	25	21	30	4	25	–	–
Production	(60)	(128)	(4)	(36)	(19)	(85)	(4)	(29)	(14)	(1)
December 31, 1997	332	810	152	156	145	569	18	154	87	13
Revisions of Previous Estimates	**73**	**100**	**23**	**55**	**8**	**90**	**2**	**11**	**(1)**	**8**
Purchases of Reserves in Place [7]	**4**	**48**	–	–	**3**	**21**	**1**	**27**	–	–
Sales of Reserves in Place [8]	**(10)**	**(278)**	–	–	**(10)**	**(204)**	–	–	**(74)**	–
Extensions and Discoveries	**31**	**89**	–	**15**	**15**	**78**	**1**	**11**	–	–
Production	**(61)**	**(131)**	**(5)**	**(38)**	**(17)**	**(84)**	**(4)**	**(35)**	**(12)**	**(2)**
December 31, 1998	**369**	**638**	**170**	**188**	**144**	**470**	**18**	**168**	–	**19**
Proved Developed Reserves:										
December 31, 1996	146	458	156	87	36	233	16	140	85	7
December 31, 1997	271	648	141	124	127	472	14	108	68	6
December 31, 1998	**279**	**597**	**143**	**135**	**116**	**432**	**17**	**165**	–	**11**

Notes:

(1) Up to 40 per cent of the crude oil reserves in Yemen are reserved for the recovery of costs incurred or to be incurred by CanadianOxy on behalf of CanadianOxy and the Government of Yemen. The remaining reserves are shared between CanadianOxy and the Government of Yemen based on the level of production with CanadianOxy's interest ranging between 20 per cent and 33.3 per cent and with the Government of Yemen's interest varying between 66.7 per cent and 80 per cent. The interest taken by the Government of Yemen includes satisfaction of all income taxes payable in Yemen.

(2) Represents reserves in Australia, Ecuador and Nigeria for which CanadianOxy is compensated pursuant to risk service contracts.

(3) Purchases of reserves in place in 1996 consist of the Vermilion acquisition in the Gulf of Mexico and property acquisitions in Canada.

(4) Sales of reserves in place in 1996 consist of property dispositions in Canada and the United States.

(5) Purchases of reserves in place in 1997 consist of the Wascana acquisition and exchange of properties in Canada and the acquisition of an additional interest in a property in the United States.

(6) Sales of reserves in place in 1997 consist of an exchange of properties in Canada and property dispositions in Canada, the United States and Kazakstan.

(7) Purchases of reserves in place in 1998 consist of an exchange of properties in Canada and the acquisition of Eugene Island 18 in the Gulf of Mexico.

(8) Sale of reserves in place in 1998 consist of an exchange of properties in Canada and property dispositions in Canada and the North Sea.

B. CAPITALIZED COSTS

	Proved Properties	Unproved Properties	Accumulated Depreciation, Depletion and Amortization	Capitalized Costs
(millions)				
December 31, 1998				
Yemen	**$ 1,404**	**$ 17**	**$ 1,153**	**$ 268**
Canada	**2,242**	**181**	**669**	**1,754**
United States	**984**	**93**	**531**	**546**
Other Countries	**215**	**71**	**74**	**212**
Alternate Fuels (Synthetic Crude Oil)	**337**	**21**	**115**	**243**
Total	**$ 5,182**	**$ 383**	**$ 2,542**	**$ 3,023**
December 31, 1997				
Yemen	$ 1,222	$ –	$ 903	$ 319
Canada	2,241	237	412	2,066
United States	809	24	426	407
North Sea	394	–	159	235
Other Countries	110	33	22	121
Alternate Fuels (Synthetic Crude Oil)	317	8	106	219
Total	$ 5,093	$ 302	$ 2,028	$ 3,367
December 31, 1996				
Yemen	$ 1,123	$ –	$ 692	$ 431
Canada	623	41	325	339
United States	706	10	363	353
North Sea	366	–	124	242
Other Countries	45	51	34	62
Alternate Fuels (Synthetic Crude Oil)	298	5	97	206
Total	$ 3,161	$ 107	$ 1,635	$ 1,633

C. COSTS INCURRED

	Total		Oil and Gas				
	Oil and Gas	Alternate Fuels	Yemen	Canada	United States	North Sea	Other Countries
(millions)							
Year Ended December 31, 1998							
Property Acquisition Costs							
Proved	$ 56	$ –	$ –	$ 11	$ 45	$ –	$ –
Unproved	59	–	–	6	53	–	–
Exploration Costs	273	–	39	45	54	2	133
Development Costs	489	36	85	229	78	4	93
	$ 877	$ 36	$ 124	$ 291	$ 230	$ 6	$ 226
Year Ended December 31, 1997							
Property Acquisition Costs							
Proved	$ 20	$ –	$ –	$ 8	$ 12	$ –	$ –
Unproved	48	–	–	34	14	–	–
Exploration Costs	209	–	–	67	31	11	100
Development Costs	572	26	49	327	109	19	68
Acquisitions [(1)]	1,948	–	–	1,948	–	–	–
	$2,797	$ 26	$ 49	$ 2,384	$ 166	$ 30	$ 168
Year Ended December 31, 1996							
Property Acquisition Costs							
Proved	$ 86	$ –	$ –	$ 20	$ 66	$ –	$ –
Unproved	20	1	–	15	5	–	–
Exploration Costs	146	–	–	40	30	25	51
Development Costs	324	15	156	78	60	9	21
	$ 576	$ 16	$ 156	$ 153	$ 161	$ 34	$ 72

Note:

[(1)] Includes costs allocated to oil and gas property, plant and equipment acquired in the Wascana acquisition, including $207 million relating to unproved properties.

D. RESULTS OF OPERATIONS FOR PRODUCING ACTIVITIES

	Total		Oil and Gas				
	Oil and Gas	Alternate Fuels	Yemen	Canada	United States	North Sea	Other Countries
(millions)							
Year Ended December 31, 1998							
Net Sales	$ 1,034	$ 115	$ 399	$ 367	$ 183	$ 64	$ 21
Production Costs	280	75	49	151	49	21	10
Exploration Expense	187	–	22	36	24	1	104
Depreciation, Depletion and Amortization	656	13	175	277	112	38	54
Other Operating Expenses (Income)	(93)	–	(1)	2	(2)	(108)	16
	4	27	154	(99)	–	112	(163)
Income Tax Recovery (Provision)	(54)	(9)	(63)	(33)	–	(10)	52
Results of Operations	$ (50)	$ 18	$ 91	$ (132)	$ –	$ 102	$ (111)
Year Ended December 31,1997							
Net Sales	$ 1,251	$ 140	$ 497	$ 449	$ 212	$ 69	$ 24
Production Costs	262	75	41	154	42	15	10
Exploration Expense	148	–	–	46	26	2	74
Depreciation, Depletion and Amortization	536	13	176	221	91	33	15
Other Operating Expenses (Income)	17	3	1	11	(7)	(2)	14
	288	49	279	17	60	21	(89)
Income Tax Recovery (Provision)	(151)	(16)	(110)	(41)	(21)	(9)	30
Results of Operations	$ 137	$ 33	$ 169	$ (24)	$ 39	$ 12	$ (59)
Year Ended December 31,1996							
Net Sales	$ 980	$ 127	$ 522	$ 163	$ 214	$ 60	$ 21
Production Costs	153	74	38	55	37	13	10
Exploration Expense	119	–	–	24	27	25	43
Depreciation, Depletion and Amortization	412	11	212	64	93	28	15
Other Operating Expenses (Income)	3	3	4	(9)	1	(1)	8
	293	39	268	29	56	(5)	(55)
Income Tax Recovery (Provision)	(128)	(12)	(107)	(18)	(20)	–	17
Results of Operations	$ 165	$ 27	$ 161	$ 11	$ 36	$ (5)	$ (38)

E. STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS AND CHANGES THEREIN

For purposes of the following disclosures, estimates were made of quantities of proved reserves and the periods during which they are expected to be produced. Future cash flows were computed by applying year-end prices to CanadianOxy's share of estimated annual future production from proved conventional oil and gas reserves (excluding synthetic crude oil), net of royalties. Future development and production costs were computed by estimating costs, based on year-end prices, to be incurred in producing and further developing the proved reserves. Future income taxes were computed by applying, generally, year-end statutory tax rates, after application of existing deductions carried forward, tax credits and allowances, to the estimated pre-tax future net cash flows. The discount was computed by application of a 10 per cent discount factor. The calculations assume the continuation of existing economic, operating and contractual conditions. However, such arbitrary assumptions have not proven to be the case in the past. Other assumptions of equal validity could give rise to substantially different results.

Management believes that this information does not in any way reflect the current economic value of the oil and gas producing properties or the present value of estimated future cash flows since no economic value is attributed to probable and possible reserves, the use of a 10 per cent discount rate is arbitrary, and prices change constantly from year-end levels.

(millions)	Total	Yemen	Canada	United States	North Sea	Other Countries
December 31, 1998						
Future Cash Inflows	**$5,690**	**$1,736**	**$ 2,886**	**$ 803**	**$ –**	**$ 265**
Future Production and Development Costs	**2,711**	**647**	**1,506**	**380**	**–**	**178**
Future Income Tax	**636**	**335**	**202**	**99**	**–**	**–**
Future Net Cash Flows	**2,343**	**754**	**1,178**	**324**	**–**	**87**
10% Discount Factor	**702**	**195**	**416**	**60**	**–**	**31**
Standardized Measure	**$ 1,641**	**$ 559**	**$ 762**	**$ 264**	**$ –**	**$ 56**
December 31, 1997						
Future Cash Inflows	$6,891	$2,110	$ 3,168	$ 985	$ 356	$ 272
Future Production and Development Costs	3,085	661	1,717	336	156	215
Future Income Tax	817	440	184	125	59	9
Future Net Cash Flows	2,989	1,009	1,267	524	141	48
10% Discount Factor	707	242	310	93	34	28
Standardized Measure	$ 2,282	$ 767	$ 957	$ 431	$ 107	$ 20
December 31, 1996						
Future Cash Inflows	$5,756	$1,865	$ 1,794	$ 1,269	$ 537	$ 291
Future Production and Development Costs	1,631	345	629	302	207	148
Future Income Tax	1,297	431	462	254	104	46
Future Net Cash Flows	2,828	1,089	703	713	226	97
10% Discount Factor	719	199	261	171	60	28
Standardized Measure	$ 2,109	$ 890	$ 442	$ 542	$ 166	$ 69

CHANGES IN THE STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

(millions)	1998	1997	1996
Beginning of Year	**$2,282**	$ 2,109	$ 1,687
Sales and Transfers of Oil and Gas Produced, Net of Production Costs	**(836)**	(1,290)	(702)
Changes in Estimated Future Development Costs	**(46)**	(342)	(83)
Net Changes in Prices and Production Costs Related to Future Production	**(766)**	(797)	542
Extensions, Discoveries and Improved Recovery, Less Related Costs	**76**	589	126
Development Costs Incurred during the Period which Reduced Future Development Costs	**468**	66	206
Revisions of Previous Quantity Estimates	**301**	397	343
Accretion of Discount	**269**	272	230
Purchases of Reserves in Place	**56**	1,221	151
Sales of Reserves in Place	**(212)**	(303)	(63)
Net Change in Income Taxes	**49**	360	(328)
End of Year	**$1,641**	$ 2,282	$ 2,109

Historical Review (unaudited)

FIVE YEAR FINANCIAL REVIEW

	1998	1997	1996	1995	1994
(millions of dollars except per share data)					
Revenues					
Net Sales					
Oil and Gas					
Yemen	$ 399	$ 497	$ 522	$ 499	$ 381
Canada	367	449	163	128	138
United States	183	212	214	127	129
North Sea	64	69	60	59	64
Other Countries	21	24	21	23	22
Alternate Fuels	115	140	127	111	104
	1,149	1,391	1,107	947	838
Chemicals	258	260	255	233	177
Corporate and Other Items	33	30	–	–	–
	1,440	1,681	1,362	1,180	1,015
Gain on Disposition of Assets	135	12	18	23	28
Marketing, Interest and Other Income	75	60	9	25	14
Total Revenues	$ 1,650	$ 1,753	$ 1,389	$ 1,228	$ 1,057
Net Income					
Operating Profit (Loss)					
Oil and Gas					
Yemen	$ 154	$ 279	$ 268	$ 206	$ 137
Canada	(99)	17	29	14	52
United States	–	60	56	43	29
North Sea	112	21	(5)	9	21
Other Countries	(163)	(89)	(55)	(27)	(29)
Marketing	13	4	–	–	–
Alternate Fuels	27	49	39	35	17
	44	341	332	280	227
Chemicals	54	56	66	48	28
	98	397	398	328	255
Interest and Other Corporate Items	(192)	(119)	(79)	(88)	(94)
Income Tax Expense	(16)	(139)	(129)	(99)	(65)
Net Income (Loss)	$ (110)	$ 139	$ 190	$ 141	$ 96
Net Income (Loss) Per Common Share	$ (0.83)	$ 1.02	$ 1.40	$ 1.05	$ 0.72

FIVE YEAR FINANCIAL REVIEW

	1998	1997	1996	1995	1994
(millions of dollars except per share data)					
Funds Flow from Operations[1]					
Oil and Gas					
Yemen	$ 350	$ 455	$ 480	$ 458	$ 337
Canada	185	246	105	70	83
United States	135	176	170	100	95
North Sea	54	56	48	47	51
Other Countries	(4)	–	3	(1)	(2)
Marketing	25	12	–	–	–
Alternate Fuels	36	62	51	35	28
	781	1,007	857	709	592
Chemicals	79	87	90	74	42
	860	1,094	947	783	634
Interest and Other Corporate Items	(176)	(107)	(62)	(76)	(84)
Income Tax Expense	(84)	(122)	(119)	(77)	(57)
	$ 600	$ 865	$ 766	$ 630	$ 493
Financial Position					
Working Capital	$ (315)	$ 24	$ 130	$ 77	$ 85
Property, Plant and Equipment, Net	$ 3,459	$ 3,814	$ 1,955	$ 1,882	$ 1,945
Total Assets	$ 4,226	$ 4,547	$ 2,404	$ 2,251	$ 2,271
Net Debt[2]	$ 1,732	$ 2,091	$ 463	$ 630	$ 860
Long-Term Debt	$ 1,378	$ 2,167	$ 572	$ 674	$ 919
Shareholders' Equity	$ 1,459	$ 1,250	$ 1,123	$ 930	$ 825
Additions to Property, Plant and Equipment					
Oil and Gas[3]	$ 883	$ 852	$ 576	$ 354	$ 250
Alternate Fuels	36	26	16	15	10
Chemicals	17	18	36	52	7
Corporate and Other[3]	14	9	4	3	2
Total	950	905	632	424	269
Less: Exploration Expense	187	148	119	49	42
Capital Additions	$ 763	$ 757	$ 513	$ 375	$ 227
Shares and Dividends					
Common Shares Outstanding (millions)	137.4	136.6	136.2	135.0	134.3
Number of Registered Common Shareholders	1,527	1,266	1,235	1,274	1,361
Dividends Declared per Common Share	$ 0.30	$ 0.30	$ 0.30	$ 0.225	$ 0.20

Notes:

(1) Defined to be the sum of "Income Before Income Taxes, Charges and Credits to Income Not Involving Cash and Exploration Expense."

(2) Defined to be the sum of "Long-Term Debt, and Short-Term Borrowings less Cash and Short-Term Investments."

(3) Excludes costs allocated to oil and gas property, plant and equipment acquired in the Wascana acquisition in 1997.

(4) Also see Note 15 to the Consolidated Financial Statements.

PRODUCTION HIGHLIGHTS

	1998	1997	1996	1995	1994
Crude Oil and Natural Gas Liquids[1]					
(thousand barrels per day)					
Yemen[2]	**104.7**	98.6	92.1	90.3	78.1
Canada[3]	**59.2**	55.6	13.8	12.4	11.2
United States	**12.1**	12.7	13.4	11.7	11.2
Other Countries	**4.4**	4.6	3.8	4.7	4.5
Alternate Fuels[4]	**15.2**	15.0	14.5	14.6	13.8
	195.6	186.5	137.6	133.7	118.8
Natural Gas[1] (million cubic feet per day)					
Canada[3] [5]	**271**	255	129	132	132
United States	**115**	95	78	54	66
North Sea	**34**	38	37	36	43
	420	388	244	222	241
Chemicals (thousand short tons)					
Sodium Chlorate	**399**	383	349	278	217
Chlor-alkali	**340**	352	325	334	321

Notes:

(1) Production volumes are before deducting royalties.

(2) Production volumes differ from sales volumes due to the timing of tanker loadings.

(3) 1997 reflects post-acquisition production averaged over 365 days.

(4) In lieu of royalties, the Province of Alberta has elected to receive a net profits interest in the deemed net profits of the Syncrude Project.

(5) Production volumes differ from sales volumes due to natural gas storage movements.

AVERAGE SALES PRICES RECEIVED FOR CRUDE OIL AND NATURAL GAS

	1998	1997	1996	1995	1994
Crude Oil and Natural Gas Liquids[1]					
(dollars per barrel)					
West Texas Intermediate Average (U.S.$)	**$ 14.43**	$ 20.61	$ 22.02	$ 18.40	$ 17.18
Yemen[1]	**16.92**	25.60	27.42	22.99	20.16
Canada	**12.29**	18.25	24.44	19.68	17.70
United States	**19.03**	27.32	29.43	23.91	21.35
Other Countries[2]	**15.34**	16.10	16.16	14.24	14.04
Synthetic Crude Oil[1]	**20.77**	28.19	29.44	23.91	21.72
Natural Gas[1] (dollars per thousand cubic feet)					
Canada	**$ 1.94**	1.81	$ 1.56	$ 1.18	$ 1.89
United States	**3.25**	3.73	4.04	2.67	2.92
North Sea[1]	**5.72**	5.02	4.61	4.47	4.33

Notes:

(1) The average sales price is before deducting royalties and certain other amounts deducted in determining net sales. These other amounts represent the non-tax component of the Government of Yemen's "Deemed Interest" as described in Note 1 to the Consolidated Financial Statements, United Kingdom petroleum revenue tax, and the net profits interest payment to the Province of Alberta pertaining to the sale of synthetic crude oil.

(2) The average sales price represents the service fee per barrel received by the Company pursuant to risk service contracts.

OIL AND GAS PROVED AND PROBABLE RESERVES

(oil in millions of barrels, natural gas in billions of cubic feet)

	Total			Yemen	Canada		United States		North Sea	Other Countries
	Oil	Gas	Synthetic Crude Oil	Oil	Oil	Gas	Oil	Gas	Gas	Oil
Proved Reserves:										
December 31, 1997	375	1,034	168	156	183	759	22	188	87	14
Revisions of Previous Estimates	79	28	26	55	14	16	2	13	(1)	8
Purchases of Reserves in Place	5	57	–	–	4	25	1	32	–	–
Sales of Reserves in Place	(17)	(316)	–	–	(17)	(242)	–	–	(74)	–
Extensions and Discoveries	39	105	–	15	23	91	1	14	–	–
Production	(65)	(153)	(5)	(38)	(22)	(99)	(4)	(42)	(12)	(1)
December 31, 1998	**416**	**755**	**189**	**188**	**185**	**550**	**22**	**205**	**–**	**21**
Probable Reserves:										
December 31, 1997	192	283	45	106	48	215	3	22	46	35
Revisions of Previous Estimates	(70)	(49)	56	(50)	–	(38)	(2)	(12)	1	(18)
Purchases of Reserves in Place	2	23	–	–	1	5	1	18	–	–
Sales of Reserves in Place	(9)	(111)	–	–	(9)	(64)	–	–	(47)	–
Extensions and Discoveries	(2)	20	–	(14)	11	11	1	9	–	–
Production	–	–	–	–	–	–	–	–	–	–
December 31, 1998	**113**	**166**	**101**	**42**	**51**	**129**	**3**	**37**	**–**	**17**
Proved and Probable Reserves:										
December 31, 1997	567	1,317	213	262	231	974	25	210	133	49
Revisions of Previous Estimates	11	(21)	83	5	14	(22)	2	1	–	(10)
Purchases of Reserves in Place	5	80	–	–	5	30	–	50	–	–
Sales of Reserves in Place	(26)	(427)	–	–	(26)	(306)	–	–	(121)	–
Extensions and Discoveries	37	125	–	1	34	102	2	23	–	–
Production	(65)	(153)	(6)	(38)	(22)	(99)	(4)	(42)	(12)	(1)
December 31, 1998	**529**	**921**	**290**	**230**	**236**	**679**	**25**	**242**	**–**	**38**

Notes:

(1) Reserve quantities are CanadianOxy's working interest share using escalated price assumptions. The oil and natural gas prices used in the determination of reserve quantities were based on a mix of independent consulting firms' price forecasts.

	Oil		Natural Gas	
	West Texas Intermediate at Cushing, Oklahoma U.S.$/bbl	Light Crude at Edmonton, Alberta Cdn.$/bbl	U.S. Spot at Henry Hub, Louisiana U.S.$/mcf	Canadian Spot at Empress, Alberta Cdn.$/mcf
1998	14.00	19.39	2.30	2.59
1999	18.50	24.72	2.37	2.36
2000	20.40	27.75	2.42	2.36
2001	20.81	28.32	2.46	2.42
2002	21.22	28.91	2.51	2.48

Oil and natural gas prices are escalated by three per cent thereafter.

(2) Probable reserves are unrisked.

abbreviation table

bbl – barrel	mcf – thousand cubic feet
bbls/d – barrels of oil per day	mcf/d – thousand cubic feet per day
bcf – billion cubic feet	mmcf – million cubic feet
boe – barrel of oil equivalent	mboe – thousand barrels of oil equivalent
boe/d – barrels of oil equivalent per day	mmboe – million barrels of oil equivalent
mbbls – thousand barrels	tcf – trillion cubic feet
mmbbls – million barrels	WTI – West Texas Intermediate

corporate information

conversions

Natural gas converted to oil equivalent at the rate of ten thousand cubic feet = one barrel of oil for Canada and six thousand cubic feet = one barrel of oil for the United States and the North Sea.

Canadian Petroleum Ltd. Operating Entities

chemicals

CXY Chemicals

CXY Chemicals Canada Limited Partnership
CXY Chemicals U.S.A.

oil and gas

CXY Energy Marketing

CXY Energy Marketing
CXY Energy Marketing (U.S.A.) Inc.

Wascana Energy

Wascana Energy Inc.
Wascana Energy Partnership
Wascana Oil and Gas Partnership

CXY Energy

CXY Energy Offshore Inc.

Canadian Petroleum

Canadian Petroleum Ltd.
Canadian Petroleum International Holdings Limited
Canadian Occidental Petroleum Yemen
Canadian Petroleum Australia Limited
Canadian Petroleum Colombia Limited
Canadian Petroleum Ecuador Limited
CXY Nigeria Oilfield Services Ltd.
Canadian Petroleum Indonesia Ltd.
Canadian Petroleum International Ltd.
Canadian Petroleum Yemen Ltd.

our board of directors

Victor J. Zaleschuk
President and Chief Executive Officer of Canadian Occidental Petroleum Ltd., Calgary, Alberta

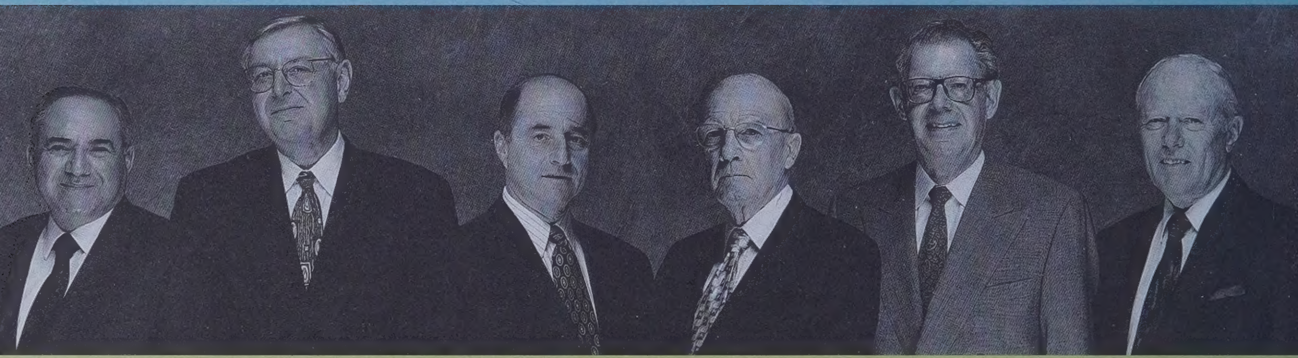
J. Howard Hawke 1,2,3,4,5,6
Chairman and a director of Brick Brewing Co. Limited, Toronto, Ontario

Gordon R. Wittman 1,3,4,5
Formerly President, Chief Operating Officer and a director of Dupont Canada Inc., Mississauga, Ontario

Dr. Ray R. Irani 1,4,5
Chairman and Chief Executive Officer and a director of Occidental Petroleum Corporation, Los Angeles, California

John E. Feick 1,3,5
President and Chief Executive Officer of Matrix Solutions Inc., Calgary, Alberta

Richard M. Thomson 1,6
Retired Chairman and Chief Executive Officer of the Toronto-Dominion Bank, Director of the Toronto-Dominion Bank, Toronto, Ontario



1] Member of the Executive Committee 2] Member of the Finance Committee 3] Member of the Audit and Conduct Review Committee 4] Member of the Compensation Committe

officers

Dr. Ray R. Irani
Chairman of the Board

Victor J. Zaleschuk
President and Chief Executive Officer

Charles W. Fischer
Executive Vice President and Chief Operating Officer

John B. McWilliams
Senior Vice President, General Counsel and Secretary

Laurence Murphy
Senior Vice President, International Oil and Gas

Douglas B. Otten
Senior Vice President, United States

Marvin F. Romanow
Senior Vice President, Finance and Chief Financial Officer

Thomas A. Sugalski
Senior Vice President, Chemicals

Roger D.Thomas
Senior Vice President, Canadian Oil and Gas

David B. Wartman
Senior Vice President, Human Resources and Corporate Services

Graeme G. Phipps
Vice President, Corporate Planning and Business Development

Kevin J. Reinhart
Treasurer

Una M. Power
Controller and Director, Risk Management

Lynda J. Elliott
Assistant Secretary

Eric B. Miller
Assistant Secretary

corporate governance

The Board of Directors of CanadianOxy takes seriously its duties and responsibilities with respect to principles of good corporate governance. In this regard, CanadianOxy supports and conducts its business in accordance with the guidelines adopted by The Toronto Stock Exchange. A report of our compliance with the guidelines may be found in the Proxy Statement and Information Circular.

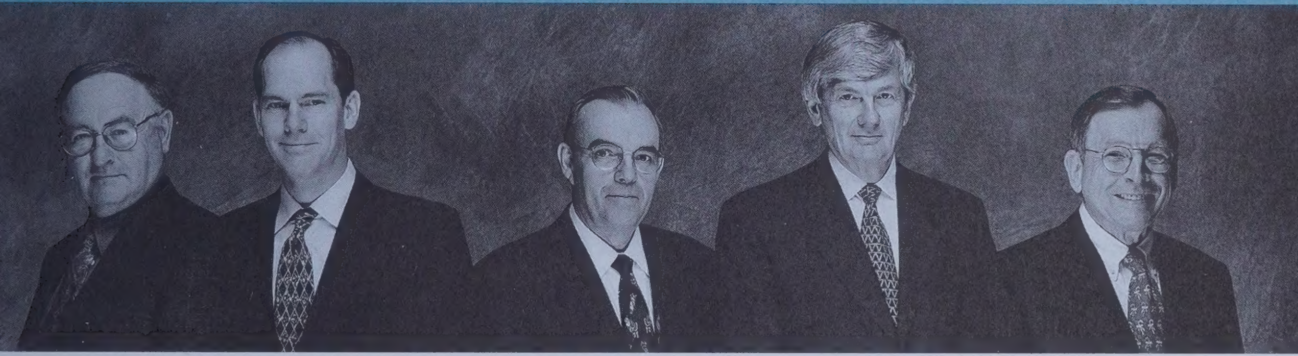
Francis M. Saville, Q.C. 2,3,6
Vice Chairman and Senior Partner of Fraser Milner Barristers and Solicitors, Calgary, Alberta

Kevin J. Jenkins 2,3,4
President and Chief Executive Officer and a director of The Westaim Corporation, Calgary, Alberta

Dr. Dale R. Laurance 1,2,4,5
President and Senior Operating Officer and a director of Occidental Petroleum Corporation, Los Angeles, California

John. M. Willson 2,5,6
President and Chief Executive Officer of Placer Dome Inc., Vancouver, British Columbia

David A. Hentschel 2,3,6
Executive Vice President Oil and Gas of Occidental Oil and Gas Corporation, Bakersfield, California



] Member of the Corporate Governance and Nominating Committee 6] Member of the Environment, Health and Safety Committee

corporate information

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(403) 234-6700
Internet: www.cdnoxy.com

Common Shares Transfer Agents and Registrars
CIBC Mellon Trust Company, Calgary, Toronto, Montreal, Regina, Winnipeg, Vancouver and Halifax

ChaseMellon Shareholder Services, New York, NY

Listed – Symbol "CXY"
The Toronto Stock Exchange
Montreal Exchange
American Stock Exchange

Preferred Securities
9.75 per cent due 2047
9.375 per cent due 2048

TRUSTEE: IBJ Whitehall Bank & Trust Company New York
LISTED: Symbol "CZX"
New York Stock Exchange

Dividend Reinvestment Plan
A copy of the offering circular (and for United States residents, a prospectus) and authorization form may be obtained by calling CIBC Mellon Trust Company at 1-800-387-0825 or via the Internet at www.cibcmellon.ca

Auditors
Arthur Andersen LLP
Calgary, Alberta

FORM 10-K
A copy of the 1998 Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission is available without charge, upon written request to the Secretary.

ANNUAL GENERAL MEETING
The Annual General Meeting of Shareholders will be held at the Palliser Hotel in Calgary, Alberta, Canada on May 11th, 1999 at 11 a.m.

any questions?

please contact:
KEVIN FINN
INVESTOR RELATIONS

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